Pt II

Linamar

ANNUAL
REPORT
2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2003

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Linamar Corporation ("Linamar" or the "company") should be read in conjunction with its consolidated financial statements for the year ended December 31, 2003 and related notes thereto.
This MD&A has been prepared as at March 26, 2004.

This MD&A has been prepared by reference to the new MD&A disclosure requirements established under National Instrument 51-102 "Continuous Disclosure Obligations" ("NI 51-102") of the Canadian Securities Administrators.

Additional information regarding Linamar, including copies of its continuous disclosure materials such as its annual information form, is available on its website at www.linamar.com or through the SEDAR website at www.sedar.com.

In this MD&A, reference is made to operating earnings which is not a measure of financial performance under Canadian generally accepted accounting principles ("GAAP"). Operating earnings is calculated by the company as Gross Margin less Selling, General and Administrative expenses and Equity (Earnings) Loss. The company has included information concerning this measure because it is used by management as a measure of performance and management believes it is used by certain investors and analysts as a measure of the company's financial performance. This measure is not necessarily comparable to similarly titled measures used by other companies and should not be construed as alternatives to net earnings or cash flows from operating activities as determined in accordance with Canadian GAAP or as a measure of liquidity.

OVERALL CORPORATE PERFORMANCE

Overview of The Business

Linamar designs, develops and manufactures precision machined components, modules and assemblies for Brakes, Engine, Steering and suspension, and Transmission and driveline applications ("B.E.S.T.") for sale primarily to original equipment manufacturers ("OEMs") and Tier 1 customers for the North American and European car and light to heavy truck markets. Linamar's business includes industrial products that utilize the company's core competencies of precision machining and assembly. Linamar also produces agricultural implements in Hungary for worldwide use.

The following table sets out certain highlight's of the company's performance in 2003:
(in millions of dollars, except content per vehicle numbers)

	2003	2002
Sales	1,530.2	1,358.1
Gross Margin	193.3	173.4
Net Earnings from Continuing Operations	39.5	56.5
Content per Vehicle – North America	68.83	64.12
Content per Vehicle – Europe	8.94	7.28

Overall Corporate Results

Linamar experienced another year of growth in 2003, to a record sales level of $1,530.2 million. Sales to automotive customers grew 5.8% from 2002, achieved in the face of a North American vehicle production decrease of 2.8% and a decrease of 2.4% in production levels in the European market. Linamar's customer base continued to expand with new business being awarded by Honda Motor Co., Ltd. ("Honda") and Toyota Motor Corporation ("Toyota").

Additionally, Linamar's strong customer performance was rewarded with significant new business awarded by Ford Motor Company ("Ford"), General Motors ("GM") and DaimlerChrysler AG ("Chrysler"). In particular, Linamar was awarded a significant new contract to produce and assemble an entire differential case for Chrysler. This is an example of executing two strategic principles: achieving and maintaining market leadership in core components and integrating forwards into assemblies and modules.

Linamar posted improved operating earnings [1] in 2003 with growth of 6.8 % over 2002 increasing from $96.0 million to $102.5 million. Net earnings decreased by $15.8 million Canadian as a result of Linamar completing the termination of two sales agent agreements. This event represents a non recurring cost to Linamar. Linamar intends to utilize its own sales force, and expects there will be a cost savings under this new organization structure. This change will also allow a more direct relationship with customers and strengthen the Linamar brand. Without this charge, net earnings are consistent with 2002.

Many new programs launched throughout 2003 are expected to reach close to or full production volumes in 2004 and 2005. Examples of these are the Chrysler differential case at the Vehcom and LPP facilities, the Caterpillar Inc. ("CAT") cylinder head program at the company's Camtac facility, and the Ford cylinder head at the company's Exkor facility. As a result, the company expects earnings growth to outpace its steady sales growth over the next few years as large programs move out of the start-up phases and new programs continue to come on line.

The company completed three acquisitions in 2003. In June 2003, the company purchased the remaining 45% of Torreon International Holding Inc. ("Torreon") not owned by it. Torreon owns 100% of Industrias de Linamar S.A. de C.V. ("ILSA"), which machines engine components and assembles them into equivalent engines at its Torreon, Mexico facility. As a result of this transaction, Linamar owns 100% of the ILSA joint venture. In June 2003, the company also completed the purchase of 96% of Salzgitter Antriebstechnik GmbH and Co. KG, which now operates under the name Linamar Antriebstechnik Gmbh ("LAT"). The purchase of this business establishes Linamar's hydroforming capability with application to camshafts. In September 2003, Linamar completed the acquisition of McLaren Performance Technologies, Inc. ("McLaren Performance") which is in an engineering firm that provides product design, test and analysis, product engineering and prototype building services to the automotive OEM and Tier 1 supply base.

[1] **Operating earnings,**

Operating earnings, as used by the chief operating decision makers and management, monitors the performance of the business specifically at the segmented level. Operating earnings is calculated by the company as Gross Margin less selling, general and administrative expenses and equity loss.

December 31	2003	2002
Gross Margin	$ 193.3	$ 173.4
Selling, general and administrative	90.8	76.6
Equity loss	-	0.8
Operating earnings	$ 102.5	$ 96.0

This non-GAAP financial measure does not have a standard meaning and may not be comparable to similar measures used by other issuers.

Selected Annual Information

The following table sets out selected financial data relating to the company's years ended December 31, 2003, 2002 and 2001. This financial data should be read in conjunction with the company's audited consolidated financial statements for these years:

(millions except per share amounts)

	2003	2002	2001
Sales	1,530.2	1,358.1	1,209.3
Earnings from Continuing Operations	39.5	56.5	52.0
Net Earnings for the year	40.5	57.0	41.9
Total Assets	1,296.7	1,058.9	951.1
Total Long-term Liabilities	204.7	164.1	149.2
Cash Dividends declared per share	0.16	0.16	0.16
Earnings Per Share From Continuing Operations			
Basic	0.56	0.80	0.76
Diluted	0.56	0.80	0.75
Earnings Per Share From Net Earnings			
Basic	0.57	0.81	0.61
Diluted	0.57	0.81	0.60

Sales

($000s except per share amounts)

	2003	2002
Canada	$1,133,896	$1,106,101
US	127,124	64,986
Mexico	111,003	90,041
Europe	182,976	115,718
Intersegment	(24,774)	(18,697)
Total external sales	$1,530,225	$1,358,149

Total sales were $1.530 billion in 2003, an increase of $172.1 million or 12.7%, compared to sales of $1.358 billion generated in 2002. The increase in sales is due to a combination of acquisitions in 2002 being fully consolidated in 2003, net new business awarded and net volume increases on existing programs offset by the impact of the stronger Canadian dollar. Prior year acquisitions represented a sales increase of $125.6 million for the year. The stronger Canadian dollar had the effect of lowering automotive sales by approximately $60.9 million for the year. Excluding the estimated effect of the stronger Canadian dollar on exchange rates, revenues would have increased by 17.2% in the year.

Also contributing to sales growth were higher tooling sales as well as growth in marine and power generation precision machined components.

As an offset to the U.S. dollar sales in Canada, Linamar also purchases materials, supplies, and capital assets in U.S. dollars. The company follows a strategy to hedge the net U.S. dollar inflows and consequently mitigates the majority of its U.S. dollar versus Canadian dollar exchange exposure.

Vehicle Production Volumes

North American vehicle production units used by Linamar for the determination of the company's content per vehicle (see table below) include medium and heavy truck volumes. European vehicle production units exclude medium and heavy trucks.

North American vehicle production volumes for 2003 were approximately 16.3 million units, compared to approximately 16.7 million units produced in 2002 which represents a 2.8% decline.

European vehicle production was down by 2.4% with approximately 16.0 million units produced in the year compared with approximately 16.4 million units produced in 2002.

Automotive Sales

Automotive sales in the following discussion are based on content per vehicle determined by the final vehicle production location and, as such, there are differences in the figures as reported under the North American automotive systems segment which is based primarily on the company's location of manufacturing. These differences are the result of products being sold directly to one continent but the final vehicle being assembled on another continent. It is necessary to show the sales based on the vehicle build location to provide accurate comparisons to the production vehicle units for each continent.

Total automotive sales for North America and Europe were $1.261 billion for the year, compared to $1.191 billion in 2002, an increase of 5.8%. The impact of the stronger Canadian dollar accounted for approximately $58.9 million in total automotive revenue reductions for 2003. If the estimated impact of the stronger dollar is removed, total automotive revenues for the year would have increased $128.9 million or 10.8%. By comparison, the combined North American and European vehicle production declined by 2.7% in 2003 against production in 2002.

The increases in Linamar automotive revenues are the result of new programs beginning to ramp up to full production levels and new programs launched net of anticipated volume reductions and programs ending.

Content Per Vehicle

North America

	2003	2002	% Change
Vehicle Production Units *	16.26	16.73	-2.8%
Automotive Sales **	$1,118,891	$1,072,705	4.3%
Content Per Vehicle	$68.83	$64.12	7.4%

Europe

	2003	2002	% Change
Vehicle Production Units *	15.97	16.37	-2.4%
Automotive Sales **	$142,734	$119,214	19.7%
Content Per Vehicle	$8.94	$7.28	22.7%

** Vehicle Production Units are shown in millions of units*
*** Automotive Sales are shown in thousands of dollars*

In 2003, North American automotive sales increased by 4.3% over 2002 to $1.118 billion. North American vehicle production units were down 2.8%. Content per vehicle was $68.83, compared to $64.12 for 2002, an increase of 7.4%.

North American automotive sales benefited from the ramping up of a number of new programs. Three significant programs that contributed in 2003 were the CAT ACERT head program, the Ford 5.4 L cylinder head program and the International Truck and Engine Corporation ("International") bedplate exhaust and intake manifold programs. The CAT and International programs are used on medium and heavy truck applications. In addition to these programs, the connecting rod program for the GM Gen IV engine and two new GM 3.8L connecting rod programs for normally aspirated and super charged engines as well as the AM General, cylinder head and connecting rod programs for the 6.5L diesel Hummer engine also contributed to the increase.

In addition, a stator support program for Ford accounted for further increases in sales in 2003. Engicom S. de R.L. de C.V. ("Engicom"), purchased at the end of 2002, also contributed a full year of sales. This plant manufactures steel camshafts for the GM Gen III engine and turbine housings for Garrett.

In 2003, European automotive sales were $142.7 million compared to $119.2 million in 2002, an increase of 19.7%, in contrast to a market decline of 2.4%. Content per vehicle grew to $8.94, an increase of 22.7% over 2002 of $7.28.

The increase in automotive sales for the year is the result of new contracts awarded and new programs ramping up towards full production volumes. Linamar Hungary RT (formerly Mezőgép RT, "Linamar Hungary") has seen the continuous variable transmission ("CVT") program and its Denso Corporation ("Denso") plate housing continue to increase in volume during these periods. Weslin has also seen its manifold programs for Garrett and Peak continue to ramp up along with the turbine housings produced for another Tier 1 customer. In addition, LAT, Linamar's new camshaft plant utilizing hydroforming technology, acquired in June, has contributed to the sales growth in the year.

Automotive tooling sales for the year increased over 2002 by $4.4 million or 13.2%, to $37.7 million. This increase is primarily due to two new programs: the launch of a new overhead rocker arm assembly for Detroit Diesel Corporation ("DDC") and a new program for the ZF Friedrichshafen AG CFT30 CVT transmission, which is scheduled to start production in the second quarter of 2004. The DDC overhead assembly is being produced in Canada for the North American medium and heavy duty truck market and will be ramping up over the next few quarters.

Other Sales

The largest area of sales growth for the year, as compared to 2002, was the sales of industrial products, which grew by $107.1 million to $138.3 million mainly as a result of the 2002 acquisition of Skyjack. In June 2001, Linamar acquired 48.5% of Skyjack; however, the operations were not consolidated until becoming a wholly-owned subsidiary in September 2002. The majority of Skyjack's sales are in the North American market with the European market representing 25% of its sales in 2003. Skyjack sales are included in the Other operational segment.

Small engine sales continued to decline by 20%, or $6.3 million, for 2003 as the related product lines continue to be strategically de-emphasized. These sales are included in the North American automotive systems operational segment but are not included in content per vehicle calculations.

Gross Margin *(millions)*

	2003	2002
Sales	$1,530.2	$1,358.1
Cost of sales	1,235.4	1,093.5
Amortization	101.5	91.2
Gross margin	193.3	$173.4
Gross margin percentage	12.6%	12.8%

Gross margin after amortization was 12.6% for the year, comparable to 12.8% for last year. The change in margin is largely due to the continuation of the change in automotive programs from consigned to purchased material and the addition of higher material content on machining and assembly programs. For example, a new assembly job for CAT at the company's Roctel facility has a higher material content than a typical machining contract. The inclusion of Skyjack, which experiences higher material content compared to the core machining business, also had the affect of reducing the gross margin percentage. LAT's German camshaft facility, which was acquired in June 2003, also has a higher material content than a typical Linamar machining facility. The newest facility in the Linamar machining family, Camtac, has had prototype sales which have a relatively lower material content than a typical production sale but other costs somewhat offset these costs. Camtac has moved to production, improving the margins in the plant as the labour is now better utilized with increased volumes improving processes, effectively reducing the material content.

Linamar's 'state-of-the-art' Exkor facility is progressing through a very long ramp up to full production levels. The facility is highly automated and, consequently, the cost structure is quite different with higher material content, low labour and higher manufacturing costs. The improvement in the gross margin for 2003 relates in part to the impact of the lower labour rate and increased sales at Exkor, which more than offsets the material component increases discussed above. In 2004, this facility will be moving to consigned material.

The company expects that the impact of the changes discussed above will lessen over the next year.

Amortization charges as a percentage of sales decreased from 6.7% in 2002 to 6.6% in 2003, or $91.2 million and $101.5 million, respectively. As a percentage of assets employed, amortization costs decreased from 17.0% and 15.6%. The change in amortization is due in part to the addition of Skyjack in September 2002 and Engicom in November 2002. The dollar value of assets in production has increased over 2002 by $112.2 million as more programs come online for production. The decrease in percentage of assets in use is due to the addition of several new facilities at Linamar during the year. Removing the impact of acquisitions during the year, the utilization rates are consistent with last year.

The newest greenfield plant, Camtac, began production in its new building, bringing $52.0 million of production equipment into use during the year. Linamar's three acquisitions in 2003 have brought significant new assets; however, due to the timing of consolidation, the amortization rates are quite low as a percentage of those assets. Linamar's latest acquisition, McLaren brought with it $13.4 million in capital assets and testing equipment. Similarly, LAT, purchased in June 2003, has added a further $17.3 million. For the year, the impact of both new facilities and ramp ups of newer programs brought the rate of amortization down from the 2002 rate of 6.7% of sales to 6.6%.

Operating Earnings *(millions)*

	2003	2002
Gross margin		
Less	$ 193.3	$173.4
Selling, general and administrative	90.8	76.6
Equity loss	-	0.8
Operating Earnings	$ 102.5	$ 96.0

Selling, general and administrative ("SG&A") costs, excluding currency exchange impacts, increased from $80.6 million in 2002 to $89.8 million in 2003. Despite the increase, SG&A remained consistent as a percentage of sales at 5.9% for both 2002 and 2003.

Core Linamar facilities (excluding Skyjack) had SG&A costs of $75.1 million in 2003, compared to $72.4 million for 2002, a decrease of 0.1% as a percentage of sales (5.3% versus 5.4% in 2002). This represents a cost savings of $1.4 million at current year to date sales levels due to active efforts to reduce administrative costs within the organization.

A driving factor behind the SG&A increase is the company's expansion into the Industrial market with the addition of Skyjack's operations in September 2002. The nature of this operation requires more marketing and sales efforts than Linamar automotive machining and assembly activities because Skyjack markets and distributes its products to the end users. In 2003, Skyjack had SG&A expenses totalling $14.7 million, excluding exchange.

Equity loss in 2002 relates to the losses in Skyjack prior to the 100% acquisition of September 2002 net of earnings in Minsor Powertrain Systems, LLC.

The company experienced exchange losses during 2003 of $1.0 million as compared to a gain of $4.0 million in 2002. Linamar Hungary holds Euro denominated debt which affords a much lower interest rate than funds borrowed in Hungarian Forints. However, as the Hungarian Forint has weakened in value against the Euro, the company has experienced exchange losses. Linamar Hungary has secured Euro-based debt to take advantage of lower interest rates. New and growing business at Linamar Hungary is also Euro-based. The Mexican subsidiaries have receivables denominated in U.S. dollars in excess of U.S. dollar liabilities. With the weakening Peso, the Mexican operations have experienced gains related to these accounts.

The loss in 2002 related mainly to the September acquisition of Skyjack. Before the September 2002 acquisition, Skyjack was restricted in the use of forward contracts under the terms of certain financing agreements. There was a gain in the value of the U.S. dollar in September of 2002, creating a gain on the U.S. based receivables held by Skyjack. Since that time, U.S. cash flows from Skyjack have been included in the utilization of forward contracts held by the company as part of its hedging strategy.

During the year, the company placed forward contracts to buy U.S. dollars, effectively locking in the gains on the forward contracts in place at December 31, 2002. This transaction resulted in cash proceeds of $30.5 million. The gain has been deferred and is being amortized to revenue based on the terms of the original underlying contracts.

During 2003, the operations of Weslin Autoipari Rt. ("Weslin") and Linamar de Mexico S.A. de C.V. ("Linamar de Mexico") have been treated as self-sustaining, with the impact of exchange on these operations now being reported in the cumulative translation adjustment account in the equity section of the financial statements.

In addition to the above, operating earning were positively impacted due to Research and Development tax credits.

INCOME BY SEGMENT

The following should be read in conjunction with note 19 to Linamar's consolidated financial statements for the financial year ended December 31, 2003.

Operational

For 2003, sales for the North American automotive segment show an increase of $31.8 million from $1.247 billion as compared to $1.215 billion for 2002. The impact of the declining U.S. dollar against the Canadian dollar and the Mexican Peso is estimated to be a reduction of $54.9 million for the year, indicating an increase otherwise of about $86.7 million on a consistent exchange rate basis. The programs with the largest impact for the year have been the ramp up of the 5.4L cylinder head program for the new Ford F150, produced at the Exkor facility in Windsor, as well as a connecting rod program for GM. The company also has sales for Engicom, which was acquired at the end of 2002, and Camtac, a new facility built in 2003. Some declines were seen in the expected, but delayed, reduction of Cummins, Inc. ("Cummins") product sales.

Sales to International have increased significantly over last year for the bedplate and intake and exhaust manifolds. The CAT cylinder head assembly job at Roctel has also increased sales for 2003. This job has a substantial material content reflected in the sales value. The impacts discussed above for the year are indicative of the trends in 2004.

For the year, operating earnings are up slightly in the segment to $126.4 million from $125.6 million for 2002. Invar Manufacturing has faced launch issues with the Honeywell International, Inc. ("Honeywell") AVNT centre housing over the past year. The issues in this program are being resolved. Offsetting the declines were improved results in Linamar de Mexico and the ramp up of production at the Exkor facility.

European sales in 2003 increased $44.2 million to $143.8 million from $99.6 million in 2002. During the year, sales increases were experienced at Weslin on parts produced for Borg Warner Inc. ("Borg Warner") and Honeywell. The Denso program in Linamar Hungary and increased volume on the CVT program improved the sales as well. The agriculture sales at Linamar Hungary were consistent with prior year levels. The additional sales from the company's latest European acquisition, LAT, were $5.9 million for the year.

European operating loss for the year was $15.8 million as compared to $8.0 million for 2002. The new operation, LAT, has contributed approximately $5.7 million to the decline in earnings, offset by operational and volume improvements at Linamar Hungary.

Sales for the Other segment increased $96.1 million to $138.9 million for 2003. The increase relates to the full consolidation of Skyjack commencing in September of 2002.

Operating earnings in the Other segment improved in the year as compared to 2002 by $13.5 million. The results in this segment continued to improve due to the focused efforts on the Skyjack operations to reduce operating costs and alter the manufacturing strategy from one of complete component manufacturer to a design, assemble, key component manufacturing and marketing/distribution strategy.

Geographical

Canadian sales for 2003 were up $25.4 million to $1.130 billion. Growth was seen in the 5.4L cylinder head produced for the new Ford F150 at Exkor. Skyjack also contributed to the year as they were only fully consolidated at the time of acquisition in September 2002. New business awarded by CAT also began to ramp-up during the year. These increases were offset by anticipated contract ends such as programs for Cummins.

The operating earnings for the Canadian segment in 2003 increased $6.7 million to $117.5 million as compared to 2002. The comparison of 2003 earnings to 2002 have been impacted by a write down of goodwill related to Skyjack in 2002. In 2003, operating earnings in this segment were impacted by the losses on the Honeywell AVNT centre housing and the anticipated contract end of a high volume Delphi Automotive Systems Corporation steering housing. As an offset, the ramp up at Exkor is starting to contribute to the earnings in this segment.

The sales in the U.S. segment increased $58.1 million to $116.0 million in 2003. The increase relates to new program launches at Eagle Manufacturing LLC ("Eagle"), a joint venture in which the company has a 60% interest, for the International bedplate and intake and exhaust manifold. Skyjack's U.S. operations have also been fully consolidated since September 2002 and contributed to the sales growth.

Operating earnings in this segment have improved $8.7 million for the year to $8.8 million as a result of cost improvements in Skyjack and the benefit of higher volumes on the Eagle programs.

Sales for Mexico have improved in 2003 by $21.0 million to $111.0 million for the year. The addition of Engicom has generated most of the sales improvement for the year. Engicom has also contributed to the year to date as an offset to the reduced sales experienced at as a result of the Renault engine volume decline.

Operating earnings in this segment in 2003 have declined by $3.1 million in 2003 to a loss of $7.2 million. The decline is due to the settlement of a Renault quality issue at ILSA. Linamar de Mexico has significantly improved its operating results with a focused effort on quality systems and LEAN initiatives.

2003 sales in Europe were $173.0 million, an increase of $67.6 million over 2002. Sales have improved through the full consolidation of Skyjack's European operations and the growing volumes on programs such as the Denso plate housing and GM CVT produced at Linamar Hungary. The company's newest European facility, LAT, which was purchased in June 2003, has also contributed to the growth during the year.

Operating earnings in this segment have not experienced the same level of growth as sales. The loss for the year increased by $5.6 million, which is directly attributed to LAT. While some losses are expected in the future, the level is expected to be less in 2004. The total European loss in 2003 was $16.6 million. Offsetting the losses experienced at LAT for 2003 were improvements in the earnings of Skyjack through the continued efforts to gain operational efficiencies in the European market place. Linamar Hungary also improved operating earnings through the improvement in volumes on programs such as the GM CVT and new Denso plate housing program.

Net Earnings and Balance Sheet Data *(millions except per share amounts)*

The following financial data has been derived from and should be read in conjunction with Linamar's audited consolidated financial statements for the financial years ended December 31, 2003 and 2002.

	2003	2002
Sales	1,530.2	1,358.1
Gross Margin	193.3	173.4
Operating income	102.5	96.0
Net interest expense	(9.5)	(7.3)
Goodwill impairment	-	(2.9)
Write-down of significantly influenced investment	-	(1.2)
Sales Agent Termination	(23.6)	-
Other income	0.5	0.9
Income taxes	(29.7)	(30.1)
Non-controlling interest	(0.7)	1.1
Earnings from continuing operations	39.5	56.5
Results from discontinued operations	1.0	0.5
Net earnings	40.5	$57.0
Earnings Per Share From Continuing Operations		
Basic	0.56	$0.80
Diluted	0.56	0.80
Earnings Per Share From Net Earnings		
Basic	0.57	$0.81
Diluted	0.57	0.81
Total Long Term Liabilities	204.7	164.1
Cash Dividends declared per share	0.16	0.16
Total Assets	1,296.7	1,058.9

Net Income and Earnings per Share

The effective tax rate for 2003 was 42.5%, an increase from the effective rate of 35.2% in 2002. The higher rate reflects the impact of tax rate increases enacted by the new Government of Ontario in the fourth quarter of 2003. The effective tax rate was also impacted by the losses generated by operations in Mexico and Hungary. The Hungarian operations enjoy the benefit of a tax holiday through a tax credit system which management expects to continue until 2011. No tax benefits have been recognized with respect to either Hungarian or Mexican losses during 2003.

Net income from continuing operations for the year declined $17.0 million to $39.5 million. The earnings were impacted significantly by the impact of $23.6 million related to the termination of the representative sales agents and the additional future taxes of $3.5 million associated with the new Ontario Government's change to corporate income tax rates.

Removing the impact of the representative sales agent termination costs and tax rate change, the results for the year are an improvement of $2.3 million, for a total income from continuing operations of $58.8 million, as compared to $56.5 million for 2002.

For the year, earnings per share from continuing operations was $0.56. However, removing the one time fourth quarter impacts of the representative sales agent terminations and tax change, the earnings per share would have been $0.83, an increase of $0.03 from $0.80 in 2002.

Interest

During the year, interest on long-term debt increased by $0.1 million over last year primarily due to the capital leases at Eagle. Eagle has entered into a series of capital leases to support the launch of significant new programs ramping up over the past year. Linamar also has a syndicated credit facility in place for the Canadian portion of its long term debt.

Other interest expense is higher by $1.3 million for the year due to the increased level of utilization of short term debt acquired initially during 2002 related to the acquisition of Skyjack and Engicom. Funds used for the purchase of LAT, the remaining 45% of Torreon, the parent company of ILSA, and the acquisition of McLaren contributed to the increased level of interest on short term borrowings. Interest earned is lower for the year as excess funds have continually been used to draw down short term borrowings.

Other

During 2002, the company held an equity ownership in two organizations. The amounts reflected for 2002 represent the earnings in Minsor Powertrain Systems LLC ("Minsor") net of the losses incurred by Skyjack until it was fully acquired by the company in September 2002. The company terminated its ownership interest in Minsor in December 2002.

As a result of the second step acquisition of Skyjack in September 2002, the company recognized an impairment in the carrying value of goodwill as it related to the initial purchase of 48.5% of Skyjack in June of 2001. The current goodwill associated with the acquisition has been reviewed for further impairment. Currently, management feels there is no further impairment.

Effective September 28, 2001, Linamar adopted a formal plan to divest the company's wholly owned in-house casting operations, which management considered was subject to significantly different business risks than the precision machining segment. During the year, management repealed the plan to sell the assets of one of the in-house casting operations, Diversacast. The prior and current year balance sheet and income statements have been reclassified to reflect the reintegration of the operation into continuing operations.

Summary of Quarterly Results of Operations

The following table sets forth unaudited information for each of the eight quarters ended March 31, 2002 through December 31, 2003. This information has been derived from our unaudited consolidated financial statements which, in the opinion of management, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of our financial position and results of operations for those periods.

Quarter Ended in millions of dollars except per share comments.

	Mar 31, 2002	June 30, 2002	Sept 30, 2002	Dec 31, 2002	Mar 31, 2003	June 30, 2003	Sept 30, 2003	Dec 31, 2003
Sales	312.3	348.7	350.1	346.9	377.2	373.0	371.5	408.5
Earnings from Continuing Operations	12.1	18.1	12.3	14.0	12.3	16.0	12.5	(1.2)
Earnings Per Share (Loss) from Continuing Operations								
Basic	0.17	0.26	0.17	0.20	0.17	0.23	0.18	(0.02)
Diluted	0.17	0.26	0.17	0.20	0.17	0.23	0.18	(0.02)
Net Earnings (Loss) Per Share								
Basic	0.18	0.26	0.17	0.20	0.18	0.23	0.18	(0.02)
Diluted	0.18	0.26	0.17	0.20	0.18	0.23	0.18	(0.02)

The quarterly results of the company are impacted by the seasonality of certain operational units. Earnings in second quarter are positively impacted by the high selling season for both the general lift platform and agricultural businesses. The third quarter is generally negatively impacted by the scheduled summer shut downs at the company's automotive customers. The company takes advantage of summer shut downs for maintenance activities that would otherwise disrupt normal production schedules. The fourth quarter of 2003 was negatively impacted by the termination of all outside sales agents as the company builds its own internal force.

As outlined earlier, three factors have had an impact on the company's financial results in 2003. Net income in 2003 was significantly impacted by $15.8 million related to the termination of the representative sales agents and the additional future taxes of $3.5 million associated with the new Ontario Government's change to corporate income tax rates. The third factor impacting total revenue, was the decline of the U.S. dollar. The impact of the decline of the U.S. dollar is estimated to be a reduction of $60.9 million for the year, indicating an increase to total revenue otherwise of about $233.0 million on a consistent exchange rate basis.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows *(millions)*

Cash provided from (used for):	2003	2002
Operating activities	$ 94.3	$162.6
Financing activities	125.4	1.6
Investing activities	(216.6)	(168.8)
Effect of translation adjustment	(1.7)	(4.3)
Net increase (decrease) in cash	$ 1.4	$(8.9)
Cash Position – Beginning of Year	27.9	36.9
Cash Position – End of Year	29.3	27.9
Comprised of:		
Cash	34.0	32.8
Unpresented Cheques	(4.7)	(4.9)
	29.3	27.9

Linamar's cash position (net of unpresented cheques) at December 31, 2003 was $29.3 million, consistent with $27.9 million at December 31, 2002.

Cash generated in 2003 by the cancellation of the certain forward contracts, continuing operations, increased long term borrowings under the Canadian syndicated credit facility and proceeds on short term bank borrowings, was offset by the payment of dividends, three acquisitions (LAT in Germany, McLaren in Michigan and the remaining portion of ILSA in Mexico), and continued investment in manufacturing equipment.

Operating Activities *(millions of dollars except per share prices)*

	2003	2002
Earnings from continuing operations	$ 39.5	$ 56.5
Items not involving current cash flows	98.3	99.1
Cash provided from operations	137.8	155.6
Net change in non-cash working capital	(73.9)	8.2
Deferred gain	30.5	-
Cash flow – continuing operations	94.4	163.8
Cash flow – discontinuing operations	(0.1)	(1.2)
Cash provided from operating activities	94.3	162.6

Cash provided by continuing operations, before the effect of changes in non-cash working capital, decreased from last year to $94.4 million in 2003 from $163.8 million in 2002. The 2003 results include the receipt of cash proceeds of $30.5 million on U.S. forward contracts crystallized in the second quarter of 2003. Incremental investments in non-cash working capital for the year were $73.9 million, compared to a generation of $8.2 million last year. This increased investment compared to last year resulted primarily from increases in accounts receivable and inventory levels associated with the ramp up of new programs such as the Ford 5.4L cylinder head program at Exkor, the CAT cylinder head at Camtac and the assembly program at Eston Manufacturing for the Hummer cylinder head, along with the CAT cylinder head assembly at Roctel.

These new programs have considerable material content. The assembly programs and the high material content in the cylinder head increases the required working capital investment by the company. In 2004, Exkor will move to consigned material, reducing some of the impact the material components have made on the company's working capital position.

Financing Activities *(millions of dollars except per share prices)*

	2003	2002
Proceeds from short-term bank borrowings	97.8	$(2.2)
Proceeds from long-term debt	47.4	26.4
Repayment of long-term debt	(8.5)	(25.7)
Proceeds from common share issuance	-	14.5
Dividends to shareholders	(11.3)	(11.3)
Other	-	(0.1)
Cash provided from (used for) financing activities	125.4	$1.6

Cash provided by financing activities for 2003 was $125.4 million. Last year, the cash provided by financing activities was $1.6 million.

The increase in short-term bank borrowings during the year is primarily the result of acquisitions. The McLaren acquisition required cash of $26.1 million. During the second quarter, the LAT acquisition required cash of $22.9 million and the share buyout of Torreon required cash of $15.5 million. The acquisitions were funded through a combination of U.S. dollar cash flows and certain U.S. dollar borrowings. The amounts borrowed in U.S. dollars for the second quarter acquisitions were repaid in August with the U.S. funds required for McLaren repaid in the fourth quarter. As a result of the U.S. cash being used for acquisitions and not for the settlement of forward contracts to generate Canadian dollars, other short term borrowings were advanced in Canadian funds for operating needs.

In the third quarter of 2002, short term borrowings in Linamar Hungary were repaid and replaced with longer term Euro-based debt at significantly lower interest rates.

In 2003, additional long term debt was acquired through further capital leases for the new programs coming online at Eagle. Repayments related to scheduled terms for the Skyjack Industrial Revenue Bonds, Linamar Hungary Euro loans and of the capital leases at Eagle.

During the fourth quarter, the company renewed and increased the non-revolving term facility under its Canadian syndicated credit agreement. As the agreement requires the facility to be fully drawn at all times, a further drawdown of $18.0 million was made on December 24, 2003. The revolving credit facility was increased by $45 million total credit available in Canada to $302 million.

In 2002, stock options were exercised for proceeds of $14.5 million. No options were exercised during 2003.

The company continues its dividend policy with payments made quarterly on 70,603,476 common shares at a rate of $0.04 per share.

Investing Activities *(millions of dollars except per share prices)*

	2003	2002
Payments for purchases of capital assets	$(159.0)	$(139.2)
Proceeds from disposal of capital assets	6.7	4.0
Net advances to Skyjack, Inc.	-	(9.6)
Investments	(64.5)	(24.9)
Other	0.2	1.1
Discontinued operations	-	(0.2)
Cash used for investing activities	($216.6)	$(168.8)

As at December 31, 2003, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $66.8 million (2002 - $80.8 million).

For 2003, cash spent on investing activities totalled $216.6 million; for 2002, the total spent was $168.8 million. The significant increase was due to business acquisitions completed in the second and third quarters of 2003, totalling a cash outflow of $64.5 million, as compared to $24.9 million in 2002.

During September 2002, Linamar acquired the remaining 51.5% of Skyjack Inc. and in October 2002, 100% of Engicom. In June 2003, Linamar acquired the remaining 45% of Torreon (ILSA) and completed the acquisition of 96% of LAT in Germany, for total cash of outflow for both transactions of $38.4 million. In September 2003, the company purchased the outstanding share capital of McLaren, located in Detroit, Michigan, in exchange for cash consideration of $10.6 million USD. Net of cash on hand and assumption of debt, the total outflows related to the McLaren acquisition was $26.1 million.

While business acquisitions accounted for 29.8% or $64.5 million of the total cash outflow for investing activities, purchases of capital assets accounted for $159.0 million of the outflow for 2003. In the second quarter of 2003, Linamar began construction on Camtac, a new facility focusing on the production of cylinder heads for CAT. Total expenditures related to the new Camtac facility and manufacturing equipment amounted to $62.6 million in 2003, of which $13.9 million represents accruals at the end of the year. Further additions are related to ramp ups and new product lines in various facilities, most notably due to the Denso line at the company's Hungarian facilities, the GM 3.8 litre and Gen IV connecting rod programs and the Allison Transmission and General Motors Corporation small valve body programs in facilities in Guelph.

Financing Resources

At December 31, 2003, cash on hand was $34.1 million, with unpresented cheques and short-term bank borrowings of $156.7 million. As at December 31, 2003, the company's syndicated revolving facility had available credit of $51.0 million. In December 2003, the syndicated non-revolving term facility was renewed and increased to $120.0 million, due in December 2006. This facility was fully drawn as at December 31, 2003, as required under the credit agreement. Of the company's consolidated long-term debt, only 13.3% of the $175.4 million is due and payable in the next 12 months.

Contractual Obligations

The following table summarizes contractual obligations by category and the associated payment for the next five years.

Contractual Obligations	*Payment Due by Period (in millions of dollars)*						
	Total	2004	2005	2006	2007	2008	Thereafter
Long Term Debt excluding Capital Leases	154.6	20.7	6.6	124.9	2.4	-	-
Capital Lease Obligations [1]	25.6	3.9	3.9	3.9	3.9	3.9	6.1
Operating Leases	7.8	2.4	2.5	1.6	0.8	0.4	0.1
Purchase Obligations [2]	66.8	66.8	-	-	-	-	-
Total Contractual Obligations	254.8	93.8	13.0	130.4	7.1	4.3	6.2

Shareholder's Equity

Share capital and book value per share has grown slightly to $8.88 [3] per share at December 31, 2003, as compared to $8.82 per share at December 31, 2002. Earnings net of dividends contributed $29.2 million for the year to retained earnings. The decrease in the cumulative translation adjustment of $25.1 million since December 31, 2002 represents the unrealized foreign exchange loss on Linamar's net investment in its self-sustaining foreign subsidiaries. This change is a result of the strengthening Canadian dollar relative to the U.S. dollar. The Hungarian Forint and Mexican Peso have also weakened significantly over the last year.

Foreign Currency Activities

Linamar pursues a stratetgy of attempting to balance its foreign currency cash flows to the largest extent possible in each region in which it operates but subsequent to negotiations with its customers on those matters. Linamar's foreign currency cash flows for the purchases of materials and certain capital equipment denominated in foreign currencies are naturally hedged when contracts to sell products are denominated in those same foreign currencies. In an effort to manage the remaining exposure, Linamar employs hedging programs primarily through the use of foreign exchange forward contracts. The contracts are purchased based on the projected net foreign cash flows from operations.

The amount and timing of forward contracts is dependent upon a number of factors including anticipated production delivery schedules, anticipated customer payment dates and anticipated costs, which may be paid in foreign currencies and expectations with respect to future foreign exchange rates. Linamar is exposed to credit risk from the potential default by counterparties on its foreign exchange contracts and attempts to mitigate this risk by dealing only with Canadian chartered banks. Despite these measures, significant long-term movements in relative currency values could affect Linamar's results of operations. Linamar does not hedge the business activities of its self-sustaining foreign subsidiaries, and accordingly, Linamar's results of operations could be further affected by a significant change in the relative values of the Canadian dollar, U.S. dollar, Euro, Hungarian Forint and Mexican Peso.

[1] **"Capital Lease Obligations"** include the interest component in accordance with the definition of minimum lease payments under GAAP.

[2] **"Purchase Obligation"** means an agreement to purchase goods or services that is enforceable and legally binding that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

[3] **Book Value per share** *(in millions except share and per share figures)*

Book Value per share, as used by the chief operating decision makers and management, indicates the value of the company based on the carrying value of the company's net assets. Book value per share is calculated by the company as shareholder's equity divided by shares outstanding at year-end.

December 31	2003	2002
Shareholder's Equity	$627.1	$622.9
Shares outstanding at year-end	70,603,476	70,603,476
Book Value per share	$8.88	$8.82

The non-GAAP financial measure does not have a standard meaning and may not be comparable to similar measures used by other issuers.

At December 31, 2003, the company was committed to a series of monthly forward exchange contracts to sell U.S. dollars and British pounds as well as to buy Euros and British pounds which mature in the future as noted below and which the company has designated as hedges. At December 31, 2003, the net unrecognized gain on the U.S. contracts was approximately $12.4 million (2002 - $12.9 million loss). The unrecognized gain on the Euro contracts was approximately $0.2 million (2002 - $0.7 million). The unrecognized net loss on the British pound contracts was approximately $0.1 million (2002 - $Nil). As these forward exchange contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in the same period as the sales and expenditures which generate the net cash flows.

During the year, the company placed forward contracts to buy U.S. dollars, effectively locking in the gains on the forward contracts in place at December 31, 2002. This transaction resulted in cash proceeds of $30.5 million. The gain has been deferred and is being amortized to revenue based on the terms of the original underlying contracts.

Off Balance Sheet Arrangements

The company leases transport trucks and trailers through its subsidiary Linamar Transportation Inc. in order to ensure the best possible delivery service to its customers.

The company currently leases approximately 85 trucks and 118 trailers from Penske Truck Leasing and Ryder Truck Rental Canada, Ltd. The amount due under these operating leases are reflected under the heading “Operating Leases” in the table set out in the “Contractual Obligation” section of the document.

The company is allowed to return up to 20% of the fleet at any time without incurring any charges. Should the entire arrangement be terminated, the company would be responsible for the balance of the amount owing under the leases.

The company is also a party to certain financial guarantees as discussed in Note 21 of the financial statements that are hereby incorporated herein.

Transactions with Related Parties

In 2003, the company paid $11.3 million for the construction of buildings, building additions improvements and $0.2 million for maintenance costs to Kiwi-Newton Construction Ltd., a company owned by the spouse of a director. On a periodic basis the company entertains a closed – bid process to ensure that it receives the best price for the work to done by a related party.

Fourth Quarter

In the fourth quarter, sales increased by 17.8% to $408.5 million compared to $346.9 million in the same quarter last year. The increase was the result of the ramping up of automotive volumes on new programs launched during 2003 or 2002 (net of programs ending), a full quarter of acquisitions’ sales compared to the prior year, and a strong sales quarter for the Industrial business, specifically Skyjack.

Fourth quarter operating earnings increased significantly by 69.4% to $32.3 million compared to $19.1 million for the same quarter a year ago. This increase was the result of improvements in the industrial operations where Skyjack’s earnings were stronger, as well as growth in automotive earnings. In the quarter, gross margin increased to 12.9% of sales or $52.8 million compared to 12.1% or $41.9 million in the same quarter of last year, an increase of 0.8 percentage points or $10.9 million. The fourth quarter of 2003 compares favourably to the third quarter of 2003 where gross margin was 11.9% of sales or $44.3 million.

With respect to fourth quarter sales, Linamar’s North American Automotive sales grew by 13.1% while North American automobile production grew by only 1.0%. Had the U.S. to Canadian dollar exchange rate remained unchanged, sales would otherwise have increased by 20.4%.

In Europe, Linamar’s fourth quarter automotive sales grew by 38.6% due to the addition of the facility in Germany as well as higher sales at Weslin and Linamar Hungary. This result was achieved despite a reduction in European automobile production of 7.5%.

Content per vehicle for the quarter in North America grew by 12.0% to $73.53 and 49.9% in Europe to $9.34 compared to the fourth quarter of 2002.

As discussed above, in the fourth quarter 2003, Linamar completed the termination of its sales agent agreements and recorded a one-time charge of $23.6 million in recognition of that transaction.

During the fourth quarter of 2003, the Government of Ontario increased future income tax rates, which impacted the company's future tax liability by $3.5 million. This was recognized in the quarter. Excluding the impact of the sales agent termination (net of tax) and the Ontario change in tax rates, net earnings for the quarter would otherwise be approximately $18.1 million or $0.25 per share.

Proposed Transactions

Wescast Industries Inc. ("Wescast") has announced its intention to sell its 50% interest in Weslin to the company, pursuant to the terms of a joint venture agreement between the parties.

On January 28, 2004, Linamar received a notice (the "Put Notice") from Wescast Industries Inc. ("Wescast"), the owner of a 50% joint venture interest (the "Wescast Interest") in Weslin Industries Inc. ("Weslin"), purporting to put the Wescast Interest to Linamar pursuant to the Weslin joint venture agreement. Linamar holds a 50% joint venture interest in Weslin, which through its wholly-owned Hungarian subsidiary, Weslin Autoipari RT, develops casting and molding capacity in Hungary to manufacture cast iron exhaust manifolds and other thin-walled, highly-cored components for the European market. Linamar is in the process of bringing an application to the Ontario Superior Court of Justice disputing the validity the Put Notice and requesting a wind up of Weslin.

If the put transaction proceeds, the purchase price for the Wescast Interest will be determined pursuant to an arbitration procedure under the joint venture agreement. It is currently expected that the purchase price would be either $50,000,000, as proposed by Linamar, or $70,000,000, as proposed by Weslin. Management anticipates that the purchase price will be funded by debt. The effect on future rates and earnings will be that Linamar will realize 100% of financial benefit or cost from Weslin, versus the existing 50%.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an ongoing basis, the company evaluates its estimates. However, actual results may differ from these estimates under different assumptions or conditions.

Impairment of Goodwill and Other Intangibles

Management, on an annual basis, must assess for impairment goodwill and intangible assets not subject to amortization. For intangibles and other long-lived assets, the company must also assess for impairment when events and changes in circumstances indicate that the carrying amounts may not be recoverable. The company believes that the estimate of impairment for goodwill and other intangibles is a "critical accounting estimate" because management is required to make significant forward looking assumptions. Also, different estimates that could have been used or changes in estimates from period to period may have a material impact on the company's consolidated balance sheets, statements of cash flows, and statements of earnings. For goodwill, the company evaluates its interest in a subsidiary's fair value using a valuation of their underlying net identifiable assets. For other intangibles, the company evaluates, when events or circumstances change, the fair value of the intangible. The company uses a discounted cash flow method to determine the fair value. Uncertain changes in the discount rate used, and forward looking assumptions regarding improvement plans, costing assumptions, timing of program launches, and production volumes may affect the fair value of estimates used. No known trends, commitments, events or other uncertainties are currently believed to affect the assumptions used.

As at December 31, 2003, goodwill and other intangibles of $34.6 million (2002 - $3.3 million) was recorded on the consolidated balance sheet of the company. The amount acquired during the year was $31.3 million (2002 - $6.2 million). The amount recorded as impaired on the company's consolidated statements of earnings amounted to $Nil (2002 - $2.9 million).

On a geographical segmented basis, the goodwill and other intangible balance was $3.3 million based in the Canada segment, $12.6 million in the United States segment (United States goodwill at $11.2 million and the McLaren Performance acquisition at $1.4 million), and $18.7 million in the Europe segment (Europe goodwill at $10.0 million and the LAT acquisition at $8.7 million). On an operational segmented basis the balance was $12.6 million (North American Automotive Systems goodwill at $11.2 million and McLaren acquisition at $1.4 million) in the North American Automotive Systems segment, $18.7 million (Europe goodwill at $10.0 million and LAT acquisition at $8.7 million) in the Europe segment, and $3.3 million in the other segment.

The balance of goodwill and other intangibles has increased $31.3 million from $3.3 million to $34.6 million in 2003. The increase is due to the acquisition of goodwill and other intangibles as a result of acquisitions of McLaren of $12.6 million (goodwill at $11.2 million and an intangible – trade name at $1.4 million) and LAT of $18.7 million (goodwill at $10.0 million and intangible – customer contract at $8.7 million) during the year. No impairment of goodwill and other intangibles was recorded during the year.

Future income tax assets and liabilities

Future income tax assets and liabilities result from the difference between the financial reporting and tax bases of assets and liabilities. Loss carry forwards comprise a portion of the temporary differences, outside of the principal item of amortization, and result in a future income tax asset. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided. The company considers this allowance a “critical accounting estimate” as highly uncertain assumptions are made at the time of estimation and differing estimates may result due to changes in the assumptions from period to period and have a material impact on the company’s consolidated financial statements. The company evaluates quarterly the realizability of its future tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are the company’s forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The company has and continues to use tax planning strategies to realize future tax assets in order to avoid the potential loss of benefits. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimate made from one period to the next. Any significant change in events, tax laws, and tax rates beyond the control of the company may materially affect the consolidated financial statements.

As at December 31, 2003, the valuation allowance against the tax benefit of tax credits and loss carry forwards was $17.5 million (2002 - $14.9 million) which is based on $23.2 million (2002 - $23.2 million) in loss carry forwards, and is reflected in the net future income tax liability balance of $11.3 million (2002 - $10.7 million) on the consolidated balance sheets of the company.

Given the uncertainty of changes in events, tax laws, and tax rates a valuation allowance of either $Nil or the full balance of loss carry forwards of $23.2 million comprise of the range of estimates from which the estimate was selected.

On a geographical segmented basis, the valuation allowance of $17.5 million was $13.9 million in the Mexico segment and was $3.6 million in the Europe segment. On an operational segmented basis was $13.9 million in the North American Automotive Systems segment and $3.6 million in the Europe segment.

The valuation allowance has increased $2.6 million from $14.9 million to $17.5 million in 2003. The valuation allowance increase is due to a change in estimate in the Europe segment.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTIONS

The following accounting policies and pronouncements were adopted during the year ended December 31, 2003:

a) During the second quarter of 2003, the company introduced a policy to address customer tooling, which is paid for as part of the piece price. Due to a change in some significant contracts more customers were paying for tooling based as part of the piece price and had contractually guaranteed reimbursement or guaranteed sales volume levels:

> Under the new policy, costs incurred with respect to tooling to be paid for by the customer as part of the piece price amount for subsequent parts production are expensed as incurred unless the related supply agreement provides a contractual guarantee for reimbursement or guaranteed volume levels during the term of the supply agreement. These costs are classified as deferred customer tooling charges, are included in other long-term assets, and are amortized based on related production volumes. Revenues under these arrangements are recognized through the negotiated piece price.

The effect on the company's consolidated balance sheet of this new policy is an increase in deferred tooling in other long-term assets. This policy has been adopted by the company as it results in better overall matching of revenues against expenses and results in constant cash flows over the terms of the contracts.

b) In 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline, AcG-14 "Disclosure of Guarantees" ("AcG-14"). AcG-14 requires that all companies comply with the new Guideline for years beginning on or after January 1, 2003. The purpose of AcG-14 is to improve the transparency of a guarantor's disclosures about the obligations and risks arising from issuing guarantees. The company has adopted this guideline. There has been no effect on the company's consolidated financial statements as a result of adopting AcG-14.

The following accounting pronouncements were adopted by the company after December 31, 2003:

a) In 2003, the CICA issued Handbook Section 3063 "Impairment of Long-lived Assets" ("CICA 3063"). CICA 3063 requires that all companies comply with changes effective for years beginning on or after April 1, 2003. Accordingly, the company will apply the Handbook Section effective January 1, 2004. CICA 3063 applies to non-monetary long-lived assets, including property, plant and equipment, intangible assets with finite useful lives, deferred pre-operating costs and long-term prepaid assets. CICA 3063 establishes standards for the recognition, measurement, and disclosure of long-lived assets. The assets are assessed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. The company cannot reasonably estimate the effect of this change on the company's consolidated financial statements at this time. However, the adoption of CICA 3063 is not expected to have an effect on the company's business.

b) In 2002, the CICA amended Handbook Section 3475, "Disposal of Long-lived Assets and Discontinued Operations" ("CICA 3475"). CICA 3475 applies to disposal activities initiated on or after May 1, 2003. All future initiation of disposal activities by the company will fall under this amended Handbook Section. CICA 3475 provides guidance on differentiating between assets held for sale and held for disposal other than by sale and on the presentation of long-lived assets and discontinued operations. All current disposal activities have been initiated by the company before this date and as a result, there is no effect from this change on the company's consolidated financial statements. The adoption of CICA 3475 is not expected to have an effect on the company's business.

c) In 2003, the CICA revised Handbook Section 3870 "Stock-based compensation and other stock-based payments" ("CICA 3870"). Revised CICA 3870 requires that all companies comply with changes effective for years beginning on or after January 1, 2004. Accordingly, the company will apply the revised Handbook Section effective January 1, 2004. The most significant change is that the estimated fair value of the options granted after January 1, 2002 will be amortized to income over their remaining vesting period on a retroactive basis for awards previously disclosed as pro forma note disclosure in prior periods. The company adopted revised CICA 3870 on a retroactive basis rather than a prospective basis as the prospective alternative is only available to companies that chose to adopt fair value based method of accounting before January 1, 2004. The company will begin to recognize an expense for all stock options granted to employees and directors after January 1, 2004. A nominal effect is estimated as a result of this retroactive change on the company's consolidated financial statements. The adoption of the revised CICA 3870 is not expected to have an effect on the company's business.

d) In 2003, the CICA finalized proposed amendments to Accounting Guideline, AcG-13 "Hedging Relationships" ("AcG-13"). AcG-13 requires that all companies comply with changes effective for years beginning on or after July 1, 2003. The company will adopt the new recommendations effective January 1, 2004. The most significant change is the establishment of certain conditions for when hedge accounting may be applied. Hedge accounting modifies the normal basis for recognizing the gains, losses, revenues and expenses associated with a hedged item or a hedging item in a company's income statement. Accordingly, the company will apply hedge accounting only under conditions that justify its use. The adoption of AcG-13 is not expected to have an effect on the company's business.

e) In 2003, the CICA issued Accounting Guideline, AcG-15 "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 requires that all companies comply with the new Guideline for years beginning on or after November 1, 2004. AcG-15 sets out criteria for identifying variable interest entities and further establishes criteria to determine which entity, if any, should consolidate them. AcG-15 conforms Canadian GAAP with U.S. GAAP as it applies to variable interest entities. The company consolidates all its subsidiaries. The company cannot reasonably estimate the effect of this change on the company's consolidated financial statements at this time. The adoption of AcG-15 is not expected to have an effect on the company's business.

OUTSTANDING SHARE DATA

Linamar is authorized to issue an unlimited number of common shares, of which 70,603,476 common shares were outstanding as of March 26, 2004. As of March 26, 2004, options to purchase 3,838,000 common shares were outstanding under Linamar's share option plan.

OUTLOOK

Over the next several years, the company anticipates continued growth in both sales and earnings. Linamar anticipates launching programs resulting in expected growth in content per vehicle for 2004 of 7% to 12% in North America and 5% to 10% in Europe. Some of these programs launched in 2003 (e.g. Caterpillar cylinder head and liner business, GM connecting rod and Hummer, Ford cylinder head) and some will be launching in 2004 and beyond (e.g. 8.6 Differential case, Ford clutch assembly, GF transmission components, DCX crankshaft and DCR differential case etc.). The earnings expectation is based on the assumption that improvements implemented in 2003 in the two of its Mexican plants which had been performing poorly will result in significantly better performance. The financial results will also be affected by continuing losses at LAT and Weslin. LAT has built a new plant to launch the BMW hydro formed cam shaft in 2005. Start up costs for the facility and the program will impact earnings. Weslin is continuing to work through a long start up process. That facility will experience losses for most of 2004. Linamar Hungary's financial performance will be affected by the uncertainty surrounding the GM CVT transmission and the fluctuation in agricultural products market. It is also anticipated that the market for Skyjack products will continue to rebound as the construction equipment market improves in the next few years, continuing the improvements that were experienced in 2003. However, the market in which Skyjack operates is highly competitive and has an excess of production capacity for those products. These expectations assume consistent levels of North American and European automobile production, no unforeseen changes in the existing business base, and are subject to overall economic conditions and world political events and factors. As certain larger programs launched in 2003 experience volume increases, the growth in future earnings is expected to outpace expected sales growth. As well, in 2004, Linamar will realize the benefits provided by the Linamar Production System. The system is based on lean principles developed by Taiichi Ohno, a Toyota executive.

Linamar believes that its strategy to focus on the B.E.S.T. components of the automobile represent a significant opportunity for growth as products in these applications are expected to be the next major area of outsourcing by the OEMs over the next 10 to 20 years. Other aspects of the vehicles such as interiors, seating, and structural components have already experienced greater levels of outsourcing. In addition to outsourcing, management believes other related trends include more involvement by suppliers in component and module design, a move towards global vehicle platforms and supply base consolidation.

Linamar believes that it is uniquely positioned with its core competencies in precision machining and manufacturing processes in the complete range of precision machined and assembled automotive products. To build on this strong business base, Linamar intends to continue to develop the organization and its future by enhancing its existing capability to machine every component in B.E.S.T., work towards integrating into assemblies, establishing a market leadership position in key components and assemblies, developing greater design expertise in targeted components, modules and systems and researching opportunities in product and process innovation.

A key factor in Linamar's future growth strategy is the effect of economic fluctuations in the automotive industry and specifically vehicles produced for the markets in which Linamar participates. Variations in these factors can have a significant impact on the industry and Linamar.

In 2003, the company's results were negatively impacted by the strengthening Canadian dollar relative to the U.S. dollar. The company continues to employ a hedging strategy to mitigate these risks. As a result of current levels of consumer spending on automobiles, the OEMs are constantly facing volume challenges which are reflected in the results of Linamar through reduced volumes on some existing programs. The OEMs do, however, continue to outsource, although not at expected levels, which allows Linamar to expand and diversify its product base.

Other principal challenges and risks that the company faces moving forward are the lack of outsourcing by the OEMs in the powertrain segment, the market share shift to the Japanese automakers, the shortage of qualified technical people in the labour pool, low cost country outsourcing and technologies that eliminate the need for machining.

In addition, the automotive industry continues to decrease the supply base mainly due to the actions of the OEMs. The OEMs are actively trying to reduce their supply base to become more manageable. Through this reduction, there have been considerable consolidation or acquisitions of smaller suppliers.

Strategies employed to address these challenges include focusing, with Linamar's new, inside sales force, on strategic sales planning and platform targeting to meet targeted customer and product sales levels as well as heavy capital expenditure levels (as illustrated on 2003), with expenditures on various new programs (LAT, Camtac, Exkor, Vehcom) that target key products and expand into assemblies and modules.

Important new technologies, like hydroforming of camshafts, have been acquired (through the purchase of LAT), as well as the increased capacity to design, test and validate engine powertrains and their components (through the acquisition of McLaren). The company will continue to focus on the continued structuring for growth ahead, as well as integrating new plants and acquisitions.

Some inroads have been made with new contracts for Honda and Toyota, and a new sales office is scheduled to be opened in 2004 in Yokohoma, Japan. A new representative office is also scheduled to open in Shanghai, China in 2004. These efforts will assist the company in increasing its business with the market share-gaining Japanese automakers and addressing low cost country outsourcing issues. Linamar will continue to adjust its strategic options with regard to these two issues and, with its strong balance sheet and technical capabilities, be ready to react to opportunities as they arise.
Other initiatives in 2004 that will help tackle these challenges are the focus on training at all levels, LEAN manufacturing principles and supplier management.

Forward Looking Information

Certain information provided by Linamar in this Management Discussion and Analysis in the Annual Report and other documents published throughout the year that are not recitation of historical facts may constitute forward-looking statements. The words “may”, “would”, “could”, “will”, “likely”, “estimate”, “believe”, “expect”, “plan”, “forecast” and similar expressions are intended to identify forward-looking statements. Readers are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of, Linamar. Some of the factors and risks and uncertainties that cause results to differ from current expectations discussed in this Management Discussion and Analysis and elsewhere in the Annual Report include, but are not limited to, changes in the various economies in which Linamar operates, fluctuations in interest rates, environmental emission and safety regulations, the extent of OEM outsourcing, industry cyclicality, trade and labour disruptions, world political events, pricing concessions and cost absorptions, delays in program launches, the company's dependence on certain engine and transmission programs and major OEM customers, currency exposure, technological developments by Linamar's competitors, governmental, environmental and regulatory policies and changes in the competitive environment in which Linamar operates.

The foregoing is not an exhaustive list of the factors that may affect Linamar's forwarding looking statements. These and other factors should be considered carefully and readers should not place undue reliance on Linamar's forward-looking statements. Linamar assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

The quarterly results of the company are impacted by the seasonality of certain operational units. Earnings in second quarter are positively impacted by the high selling season for both the general lift platform and agricultural businesses. The third quarter is generally negatively impacted by the scheduled summer shut downs at the company's automotive customers. The company takes advantage of summer shut downs for maintenance activities that would otherwise disrupt normal production schedules. The fourth quarter of 2003 was negatively impacted by the termination of all outside sales agents as the company builds its own internal sales force.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management of Linamar Corporation is responsible for the preparation of all information included in this annual report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and necessarily include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a system of internal accounting controls to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded from loss or unauthorized use.

The company's external auditors, appointed by the shareholders, have prepared their report, which outlines the scope of their examination and expresses their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the company.
The Audit Committee meets periodically with management and with the auditors to review and to discuss accounting policy, auditing and financial reporting matters. The Committee reports its findings to the Board of Directors for their consideration in reviewing and approving the consolidated financial statements for issuance to the shareholders.

Linda Hasenfratz
President & Chief Executive Officer

Keith Wettlaufer
Chief Financial Officer, Treasurer &
Vice President of Strategic Development

March 30, 2004

AUDITORS' REPORT TO THE SHAREHOLDERS OF LINAMAR CORPORATION

We have audited the consolidated balance sheets of Linamar Corporation as at December 31, 2003 and December 31, 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and December 31, 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Kitchener, Ontario
February 12, 2004

CONSOLIDATED BALANCE SHEETS

As at December 31, 2003 and December 31, 2002 (in thousands of dollars)

	2003 $	2002 $
Assets		
Current Assets		
Cash (note 2)	34,050	32,787
Accounts receivable	306,513	234,561
Inventories (note 3)	165,172	134,180
Prepaid expenses	9,814	8,449
Future income taxes (note 12)	10,764	-
Current asets - discontinued operations (note 11)	3,036	1,872
	529,349	411,849
Investments, at cost	-	210
Other Long-Term Assets	14,307	2,297
Goodwill and Other Intangibles (note 4)	34,643	3,257
Property, Plant and Equipment (notes 6 and 7)	716,187	638,569
Property, Plant and Equipment - discontinued operations (note 11)	1,851	2,043
Future Income Taxes - discontinued operations (note 11)	397	700
	1,296,734	1,058,925
Liabilities		
Current Liabilities		
Unpresented cheques	4,720	4,861
Short-term bank borrowings	151,998	52,334
Accounts payable and accrued liabilities	257,872	195,774
Current portion of long-term debt (note 7)	23,284	6,672
Income taxes payable	9,445	6,508
Current portion of deferred gain (note 15)	15,213	-
Future income taxes (note 12)	-	3,020
Current liabilities - discontinued operations (note 11)	2,366	2,779
	464,898	271,948
Long-Term Debt (note 7)	152,158	133,187
Defered Gain (note 15)	9,206	-
Future Income Taxes (note 12)	22,038	7,712
Non-Controlling Interests	21,323	23,157
	669,623	436,004
Shareholders' Equity		
Capital Stock (note 8)	102,913	102,913
Retained Earnings	544,589	515,345
Cumulative Translation Adjustment (note 10)	(20,391)	4,663
	627,111	622,921
	1,296,734	1,058,925

The accompanying notes are an integral part of these statements.

On behalf of the Board of Directors

Frank J. Hasenfratz
Director

Linda Hasenfratz
Director

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

	2003 $	2002 $
Balance - Beginning of Year	515,345	469,639
Net earnings for the year	40,541	57,003
	555,886	526,642
Dividends	11,297	11,297
Balance - End of Year	544,589	515,345

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

	2003	2002
Sales	1,530,225	1,358,149
Cost of Sales	1,235,403	1,093,519
Amortization	101,481	91,221
Gross Margin	193,341	173,409
Selling, general and administrative (note 20)	90,850	76,588
Equity loss	-	862
Earnings Before the Following:	102,491	95,959
Other Income (Expense)		
Interest on long-term debt (note 7)	(7,033)	(6,882)
Other interest expense	(3,437)	(2,144)
Interest earned	1,024	1,874
Write-down of deferred financing cost	-	(491)
Write-down of significantly influenced investment	-	(1,215)
Goodwill impairment (note 4)	-	(2,899)
Sales agent termination (note 23)	(23,596)	-
Other income	542	1,391
	69,991	85,593
Provision for (Recovery of) Income Taxes (note 12)		
Current	29,851	26,064
Future	(134)	4,078
	29,717	30,142
	40,274	55,451
Non-Controlling Interests	(739)	1,086
Earnings from Continuing Operations	39,535	56,537
Discontinued Operations, net of Income Taxes of $518 (2002 - $432)	1,006	466
Net Earnings for the Year	40,541	57,003
Earnings Per Share (notes 9 and 16)		
From Continuing Operations		
Basic	0.56	0.80
Diluted	0.56	0.80
From Net Earnings		
Basic	0.57	0.81
Diluted	0.57	0.81

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

	2003 $	2002 $
Cash Provided by (Used in)		
Operating Activities		
Earnings from continuing operations	39,535	56,537
Non-cash charges (credits) to earnings:		
Amortization of property, plant and equipment	101,481	91,221
Equity loss net of tax	-	606
Future income taxes net of unrealized exchange loss	665	3,728
Non-controlling interests	739	(1,086)
Write-down of significantly influenced investment	-	1,215
Unrealized exchange loss (gain) on long term debt	2,154	(594)
Amortization of deferred exchange gain	(6,033)	-
Goodwill impairment	-	2,899
(Gain) loss on disposal of property, plant and equipment	(864)	560
Other	132	552
	137,809	155,638
Changes in non-cash working capital (note 17)	(73,901)	8,207
Deferred gain (note 15)	30,452	-
Cash flow - continuing operations	94,360	163,845
Cash flow - discontinued operations	(76)	(1,239)
	94,284	162,606
Financing Activities		
Proceeds from short-term bank borrowings	97,813	(2,194)
Proceeds from long-term debt	47,396	26,369
Repayment of long-term debt	(8,445)	(25,670)
Proceeds from common share issuance (note 8)	-	14,528
Dividends to shareholders	(11,297)	(11,297)
Other	-	(146)
	125,467	1,590
Investing Activities		
Payments for purchase of property, plant and equipment	(159,000)	(139,193)
Proceeds on disposal of property, plant and equipment	6,672	3,996
Net advances to investments under significant influence	-	(9,620)
Business acquisitions (note 5)	(64,509)	(24,881)
Other	210	1,081
Discontinued operations	-	(158)
	(216,627)	(168,775)
	3,124	(4,579)
Effect of Translation Adjustment (note 10)	(1,720)	(4,347)
Increase (decrease) in Cash Position	1,404	(8,926)
Cash Position - Beginning of Year	27,926	36,852
Cash Position - End of Year	29,330	27,926
Comprised of:		
Cash	34,050	32,787
Unpresented Cheques	(4,720)	(4,861)
	29,330	27,926

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

1. **Significant Accounting Policies**

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, applied on a consistent basis.

Basis of Consolidation

These consolidated financial statements include the accounts of the company and its subsidiaries. Investments in joint ventures are consolidated on a proportionate basis. Investments in companies over which the company has significant influence are accounted for by the equity method. Investments in other entities are accounted for using the cost method.

Revenue Recognition

Revenue from the sale of products is recognized at the time goods are shipped to customers. Revenue from the sale of tooling is recognized once the tooling is substantially complete and the customer approves the initial production sample.

Costs incurred with respect to tooling to be paid for by the customer as part of the piece price amount for subsequent parts production are expensed as incurred unless the related supply agreement provides a contractual guarantee for reimbursement or guaranteed volume levels during the term of the supply agreement. These costs are classified as deferred customer tooling charges, are included in other long-term assets, and are amortized based on related production volumes. Revenues under these arrangements are recognized through the negotiated piece price.

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Amortization is charged to earnings in amounts sufficient to amortize the cost of property, plant and equipment over their estimated useful lives using the diminishing balance and straight-line methods as follows:

Buildings	5% diminishing balance
Machinery	Straight-line over 5 - 7 years or 15% - 20% diminishing balance
Office equipment	Straight-line over 2 - 3 years or 20% diminishing balance
Transportation equipment	10% - 30% diminishing balance
Tooling	Straight-line over 1 year

Income Taxes

Income taxes are provided, at current rates, for all items included in the statement of earnings regardless of the period in which such items are reported for income tax purposes. Future income tax assets and liabilities result from the difference between the financial reporting and tax bases of assets and liabilities. The principal item which results in temporary differences is amortization. Future income tax assets and liabilities are measured using substantively enacted tax rates that are expected to be in effect when the temporary differences are expected to reverse. The effect of any changes in tax rates on the future income tax balance is recognized in income in the period of change. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

Stock Based Compensation

The company only issues stock options to employees, including directors. The company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. Pro forma net income and earnings per share, as if the fair value based accounting method had been used to account for stock-based compensation cost, are provided. The fair value of the options issued in the year is determined using the Black-Scholes option pricing model. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to income over the vesting period.

Beginning January 1, 2004 the estimated fair value of the options granted after January 1, 2002 will be amortized to income over their remaining vesting period on a retroactive basis for awards previously disclosed as pro forma note disclosure in prior periods. The company will begin to recognize an expense for all stock options granted to employees and directors after January 1, 2004.

Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price of the company's interest in subsidiaries over the fair value of the underlying net identifiable assets arising on acquisitions. Goodwill is not amortized, but is assessed annually for impairment initially through a comparison of the fair values of each unit to which the goodwill is attributed to the carrying value of the reporting unit. Any impairments are then recorded as a separate charge against earnings and a reduction of the carrying value of goodwill.

Intangible assets not subject to amortization are assessed annually for impairment, or more frequently if events or changes in circumstances indicate that its carrying amount may not be recoverable, to ensure that the carrying amount of the intangible asset does not exceed its fair value. Any impairment is recorded as a separate charge against earnings and a reduction of the carrying value of the intangible asset.

Intangible assets subject to amortization are assessed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. These assets will be amortized over the term of the related customer contract. Any impairment is then recorded as a separate charge against earnings and a reduction of the carrying value of the intangible asset.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

Pension Costs

The company has various contributory and non-contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue. In 2003, pension costs of $13.0 million (2002 - $11.9 million) under government sponsored plans and $7.2 million (2002 - $6.7 million) under company sponsored plans were expensed in the year.

Foreign Currency Translation

The monetary assets and liabilities of the company which are denominated in foreign currencies other than those subject to hedges are translated at the year end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. All exchange gains or losses are recognized currently in earnings except those which relate to hedges of future cash flows, or those relating to the translation of self-sustaining foreign operations.

The unrealized gains and losses resulting from hedges are deferred and recognized in the same period as the sales and expenditures which generate the net cash flows. Those accounts receivables and accounts payables subject to hedges, along with their related revenues and expenses, are recorded at the hedged rates.

Self-sustaining foreign subsidiaries and interests in joint ventures are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates. The resulting unrealized exchange gains and losses are deferred and recorded as a separate component of shareholders' equity. Other foreign subsidiaries and interests in joint ventures whose operations are integrated in nature are translated using the temporal method, whereby non-monetary assets are translated at historical exchange rates, and monetary assets and liabilities are translated at year-end exchange rates. Exchange gains or losses are included in earnings in the year incurred.

The company will adopt the Canadian Institute of Chartered Accountants Accounting Guideline 13, "Hedging Relationships" effective January 1, 2004.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

Research and Development

Research costs are expensed as incurred. Development costs are expensed as incurred but would not be expensed if they met the criteria under Canadian generally accepted accounting principles for deferral and amortization. Investment tax credits related to research and development are credited to the related expense accounts unless the related development costs are capitalized, in which case the amounts are credited to development costs.

Start up Costs

All start up costs including preproduction costs and organization costs are expensed as incurred.

Other Long-Term Assets

Long-term assets are carried at cost less amortization where applicable. These assets are written down to net realizable value when the company determines there is an other than temporary decline in value.

2 **Cash**

Cash of $Nil (2002 - $0.5 million) was restricted in use to meet the terms of a contractual agreement.

3 **Inventories (in thousands of dollars)**

	2003 $	2002 $
Raw materials	76,781	66,885
Work-in-process	39,124	32,064
Finished goods	49,267	35,231
	165,172	134,180

4 **Goodwill and Other Intangibles (in thousands of dollars)**

	2003 $	2002 $
Goodwill		
Balance - Beginning of year	3,257	-
Goodwill acquired (note 5)	21,695	6,156
Effect of cumulative translation adjustment	(465)	-
Impairment of goodwill	-	(2,899)
Balance - End of year	24,487	3,257
Intangible assets not subject to amortization		
Balance - Beginning of year	-	-
Trade name acquired (note 5)	1,485	-
Effect of cumulative translation adjustment	(59)	-
Balance - End of year	1,426	-
Intangible assets subject to amortization		
Customer contract acquired (note 5)	8,730	-
	34,643	3,257

The customer contract is not being amortized as the contract has yet to begin.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

5 Business Acquisitions (in thousands of dollars)

2003 Acquisitions

(a) McLaren

In September 2003, the company completed the planned merger with McLaren Performance Technologies, Inc. ("McLaren") located in Detroit, Michigan. The total consideration of $26.7 million consisted of a right to receive $0.8875 per share in cash, debt acquired, plus acquisition costs.

(b) ILSA

In June 2003, the company purchased the remaining 45% of Torreon Holdings International Inc. which owns 100% of Industrias de Linamar SA de CV ("ILSA") located in Torreon, Mexico in exchange for cash consideration of $20.0 million. The purchase has been accounted for as a step acquisition.

(c) LAT

In June 2003, the company completed the purchase of 96.0% of Salzgitter Antriebstechnik GmbH & Co. KG located in Crimmitschau, Germany for consideration of $24.1 million. The company will operate as Linamar Antriebstechnik GmbH ("LAT"). Certain adjustments to the purchase price allocation have been made during the year however, due to the complexities associated with this transaction, the purchase price has not been finalized. Any further adjustment will be reflected as an adjustment to goodwill.

The acquisitions have been accounted for as purchases with the results of operations included in these financial statements from the effective date of acquisition. Details of the net assets acquired are as follows:

	(a) McLaren $	(b) ILSA $	(c) LAT $	Total $
Cash	599	4,444	1,249	6,292
Other current assets	5,252	3,572	5,198	14,022
Property, plant and equipment	13,368	12,036	10,500	35,904
Other assets	675	-	-	675
Future income taxes (liabilities)	1,949	2,118	(2,510)	1,557
Goodwill (note 4)	11,719	-	9,976	21,695
Intangible - Trade name (note 4)	1,485	-	-	1,485
Intangible - Customer contract (note 4)	-	-	8,730	8,730
Total assets acquired	35,047	22,170	33,143	90,360
Total liabilities assumed	8,355	2,190	9,014	19,559
Total acquisition costs	26,692	19,980	24,129	70,801
Cash consideration	26,692	19,980	24,129	70,801
Net cash flow	26,093	15,536	22,880	64,509

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

2002 Acquisitions

(a) Skyjack

In September 2002, the company purchased the remaining 51.5% of Skyjack Inc. ("Skyjack") in exchange for consideration of $10.6 million. The purchase has been accounted for as a step acquisition. The two step transaction resulted in a goodwill impairment charge to earnings of $2.9 million and remaining goodwill of $3.3 million as the value of the share price accepted, plus costs, was less than the carrying value of the goodwill. The goodwill is not deductible for income tax purposes.

(b) Federal Mogul

In October 2002, the company acquired 100% of the outstanding shares in Federal Mogul Camshafts de Mexico S. de R.L. de C.V. ("Federal Mogul") located in Saltillo, Mexico in exchange for consideration of $15.4 million.

The acquisitions have been accounted for as purchases with the result of operations included in these financial statements from the effective date of acquisition. Details of the net assets acquired are as follows:

	(a) Skyjack $	(b) Federal Mogul $	Total $
Cash	-	228	228
Other current assets	25,631	4,937	30,568
Property, plant and equipment	13,395	16,099	29,494
Other long term assets	883	-	883
Goodwill (note 4)	2,036	-	2,036
Future income taxes	5,204	-	5,204
Total assets acquired	47,149	21,264	68,413
Current liabilities	23,936	5,897	29,833
Long-term debt	12,610	-	12,610
Total liabilities assumed	36,546	5,897	42,443
Total acquisition costs	10,603	15,367	25,970
Consideration given:			
Cash	10,133	14,976	25,109
Payable over the next year	470	391	861
	10,603	15,367	25,970
Net cash flow	10,133	14,748	24,881

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

6 Property, Plant and Equipment (in thousands of dollars)

	2003		
	Cost $	Accumulated Amortization $	Net $
Land	17,874	-	17,874
Buildings	156,488	28,483	128,005
Machinery	1,002,103	473,327	528,776
Machinery under capital lease	22,956	3,216	19,740
Office equipment	15,193	8,427	6,766
Transportation equipment	15,979	5,800	10,179
Tooling	19,120	14,273	4,847
	1,249,713	533,526	716,187

	2002		
	Cost $	Accumulated Amortization $	Net $
Land	17,593	-	17,593
Buildings	130,279	24,738	105,541
Machinery	895,267	418,562	476,705
Machinery under capital lease	18,964	437	18,527
Office equipment	13,040	7,071	5,969
Transportation equipment	15,984	4,873	11,111
Tooling	17,163	14,040	3,123
	1,108,290	469,721	638,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

7 Long-Term Debt (in thousands of dollars)

	2003 $	2002 $
Borrowing under bank term loan facility, maturing December 2006, with $102.0 million subject to the 3 month LIBOR floating rate plus 1.41% and the balance subject to the 3 month Bankers Acceptance floating rate, in addition to a margin of 0.7% (a)	119,151	101,275
Industrial Revenue Bonds, Series 1998 payable in U.S. $1,680 beginning at 4.38% increasing to 5.75% over the term. Repayable in annual instalments of U.S. $400 with final payment due May 1, 2008 (b)	-	2,650
Capital lease payable in U.S. $16,039 at rates varying from 5.4% to 7.2% payable in blended monthly instalments of U.S. $253	20,800	18,956
Interest free loan payable in 2004	222	222
Interest free note payable in monthly instalments of U.S. $2	97	155
Interest free note payable of U.S. $12.5 million in monthly installments of U.S. $286 with final payment due December 31, 2006 (note 23)	16,256	-
Interest free loan payable in Hungarian forints 42,634,000 in quarterly instalments of 7,900,000 with final payment in 2005	266	512
Interest free loan payable in Hungarian forints 49,206,000 in quarterly instalments of 9,135,000 with final payment in 2005	307	609
Bank term loan payable in U.S. $1.5 million with interest at 8.15% due January 2004	1,884	-
Bank term loan payable in € 3,587,744 with floating 3 month Eurlibor interest rate and repayments of € 2,414,000 due 2004 and € 1,173,744 due in 2005	5,867	8,630
Bank term loan payable in € 4,144,000 with interest at 2.752%, repayable in 2004	6,777	6,850
Bank term loan payable in € 2,332,932 with floating 1 month Eurlibor interest rate and repayments of € 770,000 due 2006 and € 1,562,932 due 2007	3,815	-
	175,442	139,859
Less: current portion	23,284	6,672
	152,158	133,187

(a) During the year, the company revised its banking facility. The credit agreement provides for a $120.0 million term loan facility through December 2006 and a $182.0 million extendible revolving credit facility. These facilities are guaranteed by the company and three domestic subsidiaries and are unsecured. As of December 31, 2003, $51.0 million (2002 - $124.8 million) was available under the revolving credit facility. The outstanding balance on the term loan represents the total amount available under the facility. The facility agreement calls for the term loan to be fully drawn at all times.

The credit agreement requires the company to maintain certain financial ratios and imposes limitations on specified activities. The company was in compliance with these covenants at December 31, 2003.

Borrowings under the credit agreement are available as selected by the company by way of: i) Canadian Prime Rate Loans, ii) U.S. Base Rate Loans, iii) Bankers' Acceptances, and iv) LIBOR Loans, plus applicable interest rate margin. The margin varies depending on specified financial ratios.

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

In December 2001, the company entered into an interest swap transaction maturing December 17, 2006 to convert $102.0 million of variable rate obligation to a fixed interest obligation at 4.785% plus applicable margin of 0.7% at year end.

In December 2003, the company entered into a cross-currency interest rate swap transaction maturing December 17, 2006 to convert the $102.0 million fixed interest obligation, achieved by the interest swap transaction noted above, to a variable rate obligation at the three month LIBOR floating rate plus 1.41% (note 15).

(b) Specific land, building and machinery is pledged as security for the Industrial Revenue Bonds.

Specific machinery is pledged as security for the capital lease, interest free loans, and Euro based loans.

Certain long term bank loans were used to finance equipment purchases by Linamar Hungary RT. Nominal interest was capitalized in 2003 and 2002.

Principal payments required to meet long-term obligations in the next five years and the aggregate amount thereafter are as follows:

	$
Year ending December 31, 2004	23,284
2005	9,357
2006	127,890
2007	5,767
2008	3,424
Thereafter	5,720
	175,442

Payments under capital lease are as follows:

	$
Year ending December 31, 2004	3,932
2005	3,932
2006	3,932
2007	3,932
2008	3,932
Thereafter	5,972
Total minimum payments	25,632
Less: amount representing interest	4,832
Obligations under capital lease	20,800

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

8 Capital Stock (in thousands of dollars except for share and per share figures)

The company is incorporated under the Ontario Business Corporations Act in Canada and is authorized to issue an unlimited number of common and special shares.

	2003 $	2002 $
Issued		
70,603,476 common shares (2002 - 70,603,476)	102,913	102,913
Nil special shares (2002 - Nil)	-	-
	102,913	102,913

	Number	Amount $
Balance - December 31, 2001	69,302,476	88,385
Issued on exercise of options (i)	1,301,000	14,528
Balance - December 31, 2002 and December 31, 2003	70,603,476	102,913

(i) During 2002, 1,301,000 options were exercised at $11.17 per share giving proceeds of $14,528.

9 Stock Based Compensation

a) Stock Option Plan

Under the company's share option plan, the company, with the approval of the Board of Directors, may grant options to its key employees and directors for up to 1,818,000 shares of common stock in addition to those options already granted. The exercise price of each option equals the average of the high and low market price of the company's stock for the five trading days prior to the date of grant. An option's maximum term is 5 years. On the latest option distribution, the options issued to a key employee vest at the rate of 20% per year beginning on the date of issuance.

b) Continuity of Stock Options

	2003		2002	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance - beginning of year	3,856,000	14.76	5,137,000	13.86
Granted	-	-	20,000	11.87
Exercised	-	-	(1,301,000)	11.17
Expired	(18,000)	26.87	-	-
Balance - end of year	3,838,000	14.70	3,856,000	14.76
Exercisable - end of year	3,731,800	14.76	3,669,000	14.87

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

c) Stock Options by Price Range

	Options Outstanding			Options Exercisable	
Range of exercise Prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number of options	Weighted average exercise price $
$10.00 to $14.00	1,531,000	2.01	10.82	1,481,600	10.82
$14.01 to $18.00	1,497,000	2.62	14.44	1,440,200	14.44
$18.01 and over	810,000	0.62	22.53	810,000	22.53

d) Fair Value

The company applies the intrinsic value based method of accounting for stock-based compensation awards granted to employees. Accordingly, no compensation expense has been recognized for its share option plan. Linamar's net earnings and earnings per share would have been reduced to the pro forma amounts indicated below had compensation expense for the share options issued in 2002 had been determined based on the fair value at the grant date. The fair value of the stock options granted during the year were determined using the Black-Scholes option pricing model based on the following underlying assumptions:

- 4 year risk free interest rate of 4.6%
- Average expected life of 4 years
- Average expected volatility of 36.5%
- Expected dividends of $ .16 per share per year

		2003 $	2002 $
Net earnings from continuing operations	As reported	39,535	56,537
	Pro forma	39,519	56,512
Net earnings	As reported	40,541	57,003
	Pro forma	40,525	56,978
Earnings per share from continuing operations			
Basic	As reported	0.56	0.80
	Pro forma	0.56	0.80
Diluted	As reported	0.56	0.80
	Pro forma	0.56	0.80
Earnings per share from net earnings			
Basic	As reported	0.57	0.81
	Pro forma	0.57	0.81
Diluted	As reported	0.57	0.81
	Pro forma	0.57	0.81

10 Cumulative Translation Adjustment (in thousands of dollars)

As a result of the growing independence of Linamar de Mexico S.A. de C.V. and Weslin Autoipari RT, management has determined that it is now appropriate to treat these operations as self-sustaining. Effective January 1, 2003 and July 1, 2003 respectively, the net assets of the operations were translated using the current rate method. This change has been applied prospectively, resulting in a charge to equity of $1,519 and a credit to equity of $3,657 respectively at the effective date.

	2003 $	2002 $
Balance - Beginning of year	4,663	(205)
Cumulative unrealized loss on initial conversion of Linamar de Mexico S.A. de C.V. assets to current rate method	(1,519)	-
Cumulative unrealized gain on initial conversion of Weslin Autoipari RT assets to current rate method	3,657	-
Unrealized (loss) gain for the year on translation of net assets excluding cash	(25,472)	9,215
Unrealized loss for the year on translation of cash	(1,720)	(4,347)
Balance - End of year	(20,391)	4,663

11 Discontinued Operations

Effective September 28, 2001, Linamar adopted a formal plan to divest the company's wholly owned in-house casting operations, which management considered was subject to significantly different business risks than the precision machining segment. During the year, management repealed the plan to sell the assets of one of the in-house casting operations. The prior and current year balance sheet and income statements have been reclassified to reflect the reintegration of the operation into continuing operations. The remaining business continues to operate until the disposal plan is completed. Divestiture will be in the form of a sale as a going concern or alternatively, as an asset disposal. The results from discontinued operations have been reported separately within these financial statements. During the year, management reviewed and revised the original estimates made with respect to the eventual proceeds on disposition, the expected results of operations until disposition and recorded the settlement of certain contingencies.

The estimate of the loss from discontinued operations is based on management's best estimates and assumptions with respect to a variety of items including proceeds to be realized on assets to be disposed of and retained assets, if any. There is a risk that the assumptions and resulting estimates may change with the passage of time and the availability of additional information and facts. Changes to the estimate of the loss on disposal will be recognized as a gain or loss on discontinued operations during the period that such changes are determinable.

12 Income Taxes (in thousands of dollars)

The company's income taxes and effective tax rate are made up as follows:

	2003		2002	
	$	%	$	%
Combined basic Canadian Federal and Ontario Provincial income taxes	26,247	37.50	32,097	37.50
Increase (decrease) in income taxes resulting from:				
Manufacturing and processing reduction	(3,850)	(5.50)	(4,708)	(5.50)
Federal income surtax	784	1.12	959	1.12
Recognition of unrecorded future income tax assets from prior years	(527)	(0.75)	(2,654)	(3.10)
Unrecognized benefit of losses carried forward	2,759	3.94	3,501	4.09
Difference between Canadian and foreign tax rates	414	0.59	(323)	(0.38)
Rate changes on future income taxes	3,470	4.96	(245)	(0.29)
Goodwill impairment	-	-	960	1.12
Miscellaneous	420	0.60	555	0.65
Income taxes and effective income tax rate	29,717	42.46	30,142	35.21

As at December 31, 2003, the company has accumulated tax credits of approximately $7,986 in Mexico and has accumulated loss carry forwards of approximately $44,532 worldwide which can be applied to reduce income taxes otherwise payable. These tax credits and loss carry forwards expire as follows:

Year ending December 31	Tax credits	Loss carry forwards
2004	3,568	-
2005	1,823	-
2006	-	-
2007	-	-
2008	-	3,046
2009	-	9,139
2010	374	3,038
2011	358	6,241
2012	262	8,322
2013	1,601	4,246
Thereafter	-	10,500
	7,986	44,532

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

The nature and tax effects of the temporary differences that give rise to significant portions of future income tax assets and future income tax liabilities are as follows:

	2003 $	2002 $
Assets		
Tax benefit of tax credits and loss carry forwards	23,180	23,209
Sales agent termination	5,573	-
Deferred forward exchange	7,630	-
Goodwill deductible for tax	11,903	8,100
Other assets - tax value in excess of book value	4,676	1,715
	52,962	33,024
Valuation allowance against tax benefit of loss carry forwards	17,514	14,892
	35,448	18,132
Liabilities		
Cumulative tax depreciation in excess of book depreciation	42,572	25,438
Other liabilities - book value in excess of tax value	4,150	3,426
	46,722	28,864
Net future income tax liability	11,274	10,732

13 **Contingent Liabilities and Commitments (in thousands of dollars)**

The company is involved in certain lawsuits and claims. Management believes that adequate provisions have been recorded in the accounts. Although it is not possible to estimate the potential costs and losses, if any, management is of the opinion that there will not be any significant additional liability other than amounts already provided for in these financial statements.

As at December 31, 2003, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately $66,752 (2002 - $80,816).

The company is committed under certain long-term operating leases. Future minimum lease payments under these operating leases are as follows:

	$
Year ending December 31, 2004	2,420
2005	2,486
2006	1,649
2007	818
2008	371
Thereafter	146

14 **Related Party Transactions**

Included in the purchase of property, plant and equipment are the construction of buildings, building additions and building improvements in the aggregate amount of $11.3 million (2002 - $0.6 million) by a company owned by the spouse of a director. Included in cost of sales, are maintenance costs of $0.2 million (2002 - $0.3 million) by the same company. Included in cost of sales, are lease costs of $Nil (2002 - $0.2 million) related to property leased from a company owned by two directors. The property was purchased by the company on August 7, 2002 at a cost of $4.0 million. The valuation of the property was determined by an independent party.

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

During 2002, the company loaned $10.0 million to a director for the purchase of 891,000 shares at $11.17 a share under the company's share option plan. The market value of the shares at the time of the loan was $13.35 per share. The loan was outstanding for 7 days and repaid in full with interest at commercial rates on January 15, 2002.

These transactions have been recorded at the exchange amount.

15 Financial Instruments

Foreign Currency Risk

The company enters into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future net cash inflows and outflows of U.S. dollars and British pounds from operations as well as outflows of Euros and British pounds from certain capital asset acquisitions and raw material purchases. The company uses forecasted future cash flows of foreign currencies to determine the level of hedges required. Should the company's estimate of future cash flows be less than the committed series of monthly forward exchange contracts, the company would mark the excess contracts to market, recognizing any resulting gain or loss in the statement of earnings. The purpose of the company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. The company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities. Neither the notional principal amounts nor the current replacement value of the forward exchange contracts is carried on the consolidated balance sheets.

At December 31, 2003, the company was committed to a series of monthly forward exchange contracts to sell U.S. dollars and British pounds as well as to buy Euros and British pounds which mature in the future as noted below and which the company has designated as hedges. At December 31, 2003, the net unrecognized gain on the U.S. contracts was approximately $12.4 million (2002 - $12.9 million loss). The unrecognized gain on the Euro contracts was approximately $0.2 million (2002 - $0.7 million). The unrecognized net loss on the British pound contracts was approximately $0.1 million (2002 - $Nil). As these forward exchange contracts qualify for accounting as hedges, the unrealized gains and losses are deferred and recognized in the same period as the sales and expenditures which generate the net cash flows.

During the year, the company placed forward contracts to buy U.S. dollars, effectively locking in the gains on the forward contracts in place at December 31, 2002. This transaction resulted in cash proceeds of $30.5 million. The gain has been deferred and is being amortized to revenue based on the terms of the original underlying contracts.

Contracts in place at December 31, 2003:

Year	**Amount Hedged U.S. - Buy (Sell)**			**Average Exchange Rate**
2004	$	(114,000,000)	For Canadian dollars	1.4062
2005	$	(24,000,000)	For Canadian dollars	1.4000
2006	$	(6,000,000)	For Canadian dollars	1.4000
Year	**Amount Hedged Euros - Buy (Sell)**			**Average Exchange Rate**
2004	€	2,100,000	With Canadian dollars	1.5485
Year	**Amount Hedged GBP - Buy (Sell)**			**Average Exchange Rate**
2004	£	388,500	With U.S. dollars	2.0869
2004	£	(1,480,000)	For Canadian dollars	2.2003

Credit Risk

A substantial portion of the company's accounts receivable are with large customers in the automotive and truck industry and are subject to normal industry credit risks. At December 31, 2003, the accounts receivable from the company's three largest customers amounted to 18.1%, 6.9% and 5.5% of accounts receivable (2002 - 17.0%, 13.0% and 9.1%).

Interest Rate Risk

Interest rate swap agreements are used as part of the company's program to manage the fixed and floating interest rate mix of the company's total debt portfolio and related overall cost of borrowing. The company designates its interest rate hedge agreements as hedges of the underlying debt and accordingly defers gains and losses.

The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps.

In 2001 the company entered into an interest rate swap transaction. The contract involved an exchange of $102.0 million of the company's floating rate debt to fixed rate debt. The terms of the interest rate swap transaction is disclosed in note 7.

In 2003 the company entered into a cross currency interest rate swap transaction with the same $102.0 million noted above. The transaction calls for the company to swap payments of interest from a Canadian fixed interest rate for that of a LIBOR floating rate. The transaction also has the company paying interest based in U.S. currency on the U.S. dollar equivalent of $102.0 million which under the terms of the swap is U.S. $77.5 million. The principal portion of the loan remains unaffected by the transaction. Further terms of the cross-currency interest rate swap transaction are disclosed in note 7.

The swap transactions are completely independent from and have no direct effect on the relationship between the company and its lenders.

At December 31, 2003, the net unrecognized loss on the interest rate swap transaction was approximately $3.8 million (2002 - $3.8 million).

At December 31, 2003, the net unrecognized loss on the cross-currency interest rate swap transaction was approximately $1.3 million (2002 - $Nil).

At December 31, 2003, the increase or decrease in net earnings for each 1% change in interest rates on the long-term and short-term borrowings amounts to approximately $0.8 million (2002 - $0.1 million) and $1.0 million (2002 - $0.4 million) respectively.

Fair Value

Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. The company's fair values are management's estimates and are generally determined using market conditions at a specific point in time and may not reflect future fair values. The determinations are subjective in nature, involving uncertainties and matters of significant judgment. At December 31, 2003, the carrying values reported in the balance sheet for cash, accounts receivable, and current liabilities approximate fair value, due to the short-term nature of those instruments. Management has determined that the fair values of the investments at cost and the long-term debt are not significantly different from carrying values.

16 Earnings Per Share

Earnings per share are calculated using the weighted daily average number of shares outstanding during the year. The weighted average number of shares outstanding was 70,603,476 in 2003 (2002 - 70,567,832).

All of the options disclosed in note 9 are anti-dilutive for the year and therefore not included in the calculation of diluted earnings per share.

17 Cash Flows (in thousands of dollars)

Changes in non-cash working capital:

	2003 $	2002 $
Decrease (increase) in accounts receivable	(97,453)	16,722
Increase in inventories	(34,250)	(13,227)
Decrease (increase) in prepaid expenses	(1,408)	4,300
Increase in income taxes payable	2,947	24,421
Increase (decrease) in accounts payable and accrued liabilities	56,263	(24,009)
	(73,901)	8,207

The cash flows from operating activities include:

	2003 $	2002 $
Interest paid	10,442	9,147
Interest received	1,024	1,874
Income taxes paid	27,319	11,068

18 Joint Ventures (in thousands of dollars)

The company currently participates in two joint ventures with other parties and accounts for its interests using the proportionate consolidation method. The company's joint ventures are as follows:

- 50% of Weslin Industries Inc, a casting and machining facility in Oroszlány, Hungary.
- 60% of Eagle Manufacturing LLC, a machining facility in Florence, Kentucky, U.S.

The company did not fully consolidate the accounts of these joint ventures as operating agreements define the control structure whereas the company has no ability to unilaterally control the operating, financing, and investing activities of the entities and accordingly are not subsidiaries.

During the year, the company purchased the remaining 45% of Torreon Holdings International Inc., and accordingly, included in earnings and cash flows the company's proportionate share of this operation to the date of the purchase.

The following is a summary of the company's proportionate share of its joint ventures.

	2003 $	2002 $
Statements of earnings		
Sales	99,772	78,788
Expenses	107,447	83,795
Loss for the year	(7,675)	(5,007)
Balance sheets		
Current assets	37,595	47,645
Property, plant and equipment	73,061	81,012
Current liabilities	22,811	29,513
Statements of cash flows		
Cash from (used in) operating activities	3,763	(21,086)
Cash from financing activities	1,839	18,956
Cash (used in) from investing activities	(9,193)	18,053
Contingencies and commitments	120	1,080

19 Segmented Information (from continuing operations in thousands of dollars)

In September 2002, the company announced an organizational realignment into five operating groups. As a result of the new structure, the company is reporting new operational segments. Of the five groups, Transmission, Engine and Chassis are aggregated into the North American Automotive Systems segment. Substantially all automotive revenue is derived from sales to major North American manufacturers. Europe stands alone as a segment and is in the automotive business. The Industrial group, which is primarily comprised of self-propelled scissor lift platform, is included with the corporate headquarters and other small operating entities which are not quantifiable reportable segments. The comparative segmented information has been restated following the above change in composition of segments.

The company operates in four geographic segments of Canada, United States, Mexico, and Europe.

The company accounts for inter-segment sales and transfers at current market rates. The company ensures that the measurement and policies are consistently followed among the company's reportable segments for earnings from continuing operations, net earnings, and assets. The company's three largest customers account for 21.0%, 12.4% and 8.5% (2002 - 21.9%, 12.0%, and 10.0%) of total segmented sales.

Sales to unaffiliated customers in:

	2003 $	2002 $
Canada	165,190	90,365
United States	1,091,046	1,059,417
Other	273,989	208,367
	1,530,225	1,358,149

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

Geographic segments:

	Canada	United States	Mexico	Europe	Total 2003
Total revenue	1,133,896	127,124	111,003	182,976	
Inter-segment sales	3,671	11,106	-	9,997	
Sales to external customers	1,130,225	116,018	111,003	172,979	1,530,225
Operating Earnings (Loss)	117,481	8,763	(7,187)	(16,566)	102,491
Net Earnings (Loss)	53,402	5,567	(8,393)	(11,041)	39,535
Interest earned	529	42	289	164	1,024
Interest expense	7,694	264	-	2,512	10,470
Amortization	71,993	4,431	9,667	15,390	101,481
Provision for (Recovery of) Income Taxes	27,200	2,489	1,731	(1,703)	29,717
Identifiable assets	869,339	88,751	103,361	229,999	1,291,450
Goodwill - Beginning	3,257	-	-	-	3,257
Goodwill acquired	-	11,254	-	9,976	21,230
Goodwill impairment	-	-	-	-	-
Goodwill - Ending	3,257	11,254	-	9,976	24,487
Payments for property, plant and equipment	116,610	5,515	15,482	21,393	159,000
Property, plant and equipment	487,782	37,543	62,214	128,648	716,187

	Canada	United States	Mexico	Europe	Total 2002
Total revenue	1,106,101	64,986	90,041	115,718	
Inter-segment sales	1,293	7,042	-	10,362	
Sales to external customers	1,104,808	57,944	90,041	105,356	1,358,149
Operating Earnings (Loss)	110,849	116	(4,045)	(10,961)	95,959
Net Earnings (Loss)	75,297	(1,782)	(5,713)	(11,265)	56,537
Interest earned	1,472	62	224	116	1,874
Interest expense	6,035	1,198	-	1,793	9,026
Amortization	68,992	1,486	7,231	13,512	91,221
Provision for (Recovery of) Income Taxes	30,697	(419)	(153)	17	30,142
Identifiable assets	693,725	84,278	102,889	173,418	1,054,310
Goodwill - Beginning	-	-	-	-	-
Goodwill acquired	6,156	-	-	-	6,156
Goodwill impairment	(2,899)	-	-	-	(2,899)
Goodwill - Ending	3,257	-	-	-	3,257
Payments for property, plant and equipment	106,713	13,152	9,701	9,627	139,193
Property, plant and equipment	433,529	35,862	58,738	110,440	638,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

Operational segments:

	North American Automotive Systems	Europe	Other	Total 2003
Total revenue	1,253,125	155,316	160,990	
Inter-segment sales	5,637	11,503	22,066	
Sales to external customers	1,247,488	143,813	138,924	1,530,225
Operating Earnings (Loss)	126,418	(15,809)	(8,118)	102,491
Net Earnings (Loss)	48,683	(11,443)	2,295	39,535
Interest earned	326	164	534	1,024
Interest expense	1,296	1,441	7,733	10,470
Amortization	78,098	15,303	8,080	101,481
Provision for (Recovery of) Income Taxes	38,145	(1,649)	(6,779)	29,717
Identifiable assets	830,155	203,708	257,587	1,291,450
Goodwill - Beginning	-	-	3,257	3,257
Goodwill acquired	11,254	9,976	-	21,230
Goodwill impairment	-	-	-	-
Goodwill - Ending	11,254	9,976	3,257	24,487
Payments for property, plant and equipment	123,346	21,392	14,262	159,000
Property, plant and equipment	476,188	128,612	111,387	716,187

	North American Automotive Systems	Europe	Other	Total 2002
Total revenue	1,216,695	110,700	61,778	
Inter-segment sales	986	11,068	18,970	
Sales to external customers	1,215,709	99,632	42,808	1,358,149
Operating Earnings (Loss)	125,631	(8,038)	(21,634)	95,959
Net Earnings (Loss)	64,689	(8,340)	188	56,537
Interest earned	424	116	1,334	1,874
Interest expense	1,032	1,789	6,205	9,026
Amortization	70,640	13,436	7,145	91,221
Provision for (Recovery of) Income Taxes	34,825	17	(4,700)	30,142
Identifiable assets	699,857	167,470	186,983	1,054,310
Goodwill - Beginning	-	-	-	-
Goodwill acquired	-	-	6,156	6,156
Goodwill impairment	-	-	(2,899)	(2,899)
Goodwill - Ending	-	-	3,257	3,257
Payments for property, plant and equipment	111,320	9,627	18,246	139,193
Property, plant and equipment	405,162	110,256	123,151	638,569

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2003 and December 31, 2002 (in thousands of dollars)

20 Foreign Exchange (in thousands of dollars)

Included as part of selling, general and administrative expenses is a foreign exchange loss of $1,032 (2002 gain - $3,982).

21 Guarantees (in thousands of dollars)

The company has guaranteed the lease payments of Eagle Manufacturing LLC, a joint venture, for the full term of the lease which ends in 2010. The company is receiving a guarantee fee during the lease term. As at the year end the maximum potential amount of future payments is $17,088 over the remaining lease term.

The company has a commitment for its 50% joint venture interest in Weslin Industries Inc. and other companies in the form of a bank guarantee for a maximum potential future payment of $3,413 and $1,517 respectively.

The company has various other guarantees for a maximum potential future payment of $1,742 over various terms of 4 to 5 years. The company has estimated recourse, in the form of property, plant and equipment, to recover a portion of the guarantee payable from customers if balances remain unpaid in the amount of $1,407.

22 Government Assistance (in thousands of dollars)

During the year, the company had government assistance of $6,906 (2002 - $1,718) received or receivable. The company credited $4,000 (2002 - $Nil) directly to income, credited $402 (2002 - $1,718) to deferred income, and credited $2,504 (2002 - $Nil) to property, plant and equipment. At the year end, the company has a deferred government assistance balance of $2,367 (2002 - $2,491). This balance is deferred and amortized over the life of the related assets. The company is contingently liable for repayment of government assistance of $4,842 of which $2,504 was received during the current year, subject to retaining certain property, plant and equipment and meeting certain sales levels.

23 Sales Agent Termination

During the year, the company terminated the Representation Agreements with two sales agents for a total of $18.2 million U.S. At December 31, 2003, $12.5 million U.S. remains owing (note 7).

24 Subsequent Events (in thousands of dollars)

During the year, certain officers and directors of the company exercised their options in Linamar Hungary RT subject to government regulatory approval from the Court of Registry in Hungary. Subsequent to the year-end, registration was completed resulting in cash proceeds of $3,603 and a dilution of the company's ownership in the subsidiary from 62.8% to 58.6%. A dilution loss of $240 resulted from the transaction. No further options were outstanding subsequent to this transaction.

Subsequent to year end, Wescast Industries Inc. notified Linamar of its desire to sell its interest in the Weslin joint venture to Linamar. Negotiations between the parties are ongoing and the outcome of these negotiations cannot be predicted at this time.

25 Comparative Figures

Certain comparative figures have been reclassified in accordance with the current year's presentation.

OFFICERS

Frank Hasenfratz
Chairman of the Board

Linda Hasenfraz
Chief Executive Officer & President

Jim Jarrell
Chief Operating Officer

Mark Stoddart
Chief Technology Development Officer
& Vice President of Marketing

Keith Wettlaufer
Chief Financial Officer, Treasurer,
& Vice President Of Strategic Development

Roger Fulton
General Counsel &
Corporate Secretary

Michael Annable
Vice President of Human Resources,
Information Technology & Administration

Derek Jones
Group President - Chassis

Ken Myers
Group President - Transmission

Csaba Havasi
Group President - Europe

Lloyd Spalding
Group President - Industrial

DIRECTORS

Frank Hasenfratz
Chairman of the Board

David Buehlow
Director & Audit Committee (Chair)
Human Resources & Corporate Governance Committee

Linda Hasenfratz
Director

Terry Reidel
Director & Audit Committee
Human Resources & Corporate Governance Committee (Chair)

Mark Stoddart
Director

William Harrison
Director & Audit Committee
Human Resources & Corporate Governance Committee

The report on Corporate Governance can be found in the Management Information Circular.

AUDITORS, TRANSFER AGENT & REGISTRAR

PricewaterhouseCoopers LLP, Chartered Accountants, Kitchener, Ontario are the auditors of Linamar Corporation.

PricewaterhouseCoopers LLP
55 King St. West
Suite 900
Kitchener, ON N2G 4W1

The transfer agent and registrar for the Common Shares of the company is Equity Transfer Services Inc. at its principal offices in Toronto.

Equity Transfer Services Inc.
Suite 420, 120 Adelaide Street West
Toronto, Ontario
M5H 4C3

Linamar Shares are listed on the Toronto Stock Exchange, trading under LNR.

ANNUAL MEETING OF SHAREHOLDERS

The company's Annual Meeting of Shareholders will take place in May 2003:

Date:	May 18, 2004
Time:	6:00 p.m. (EST)
Location:	River Run Centre 35 Woolwich Street Guelph, Ontario For directions please visit our website at www.linamar.com

Linamar

Linamar Corporation 287 Speedvale Avenue West, Guelph, Ontario, Canada N1H 1C5
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